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FINANCIAL MANAGEMENT

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BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

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FINANCIAL MANAGEMENT

THURSDAY, JULY 23, 1987

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:30 a.m., in room SD-342, Dirksen Senate Office Building, Hon. John Glenn (Chairman of the Committee) presiding.

Present: Senators Glenn, Roth, and Heinz.

OPENING STATEMENT OF CHAIRMAN GLENN

Chairman GLENN. Today, we continue the Committee's work on ways to improve Federal financial management.

Thanks to the earlier work done by Senator Roth and this Committee we already have a very long hearing record on the nature of the financial management problems, and that is the first step, just to define the problem.

What we have found is that the system is not working. At least, it is not working the way it should. We know, for example, that $600 million in foreign military sales simply cannot be accounted for. We also know we have almost $2 billion sunk into well over 100 separate financial management improvements projects and still no central clearance or coordination. What we do not know is whether these new systems will even work.

We know we have at least 400 different accounting systems in the Executive Branch. We also know that no two are exactly the same. Comptroller General Bowsher, who is with us here this morning to testify, gave us interesting testimony on that before at an earlier hearing this year.

We know that these systems rarely produce reliable, consistent information. Just as an example, we cannot tell what the impact of Gramm-Rudman-Hollings has been because agencies do not use the same definitions of cost.

We have dozens of other examples culled from the General Accounting Office reports and Inspector General audits of inadequate fund control, of poor collection systems, of costly custom-built upgrade efforts, and of missing data.

This Committee concluded long ago that the first step toward financial management reform is sustained leadership and commitment within the Executive Branch. I say that with no political intonations to be read into it whatsoever, as this problem has developed through many, many different political administrations of both parties and it is going to require a reversal of that by both

parties over a number of administrations to straighten the whole thing out.

Toward that end, I introduced yesterday a bill, cosponsored by several members of this Committee, which would create a crucial focus. Building on the earlier efforts by Senator Roth and others on this Committee, I believe this bill will go a great distance toward providing an integrated approach to financial management improvement.

It will not be the final word, but it will finally make someone in the Executive Branch accountable for making a Government-wide system a reality.

The bill builds upon GAO's recommendations, the Comptroller General's recommendations for an Under Secretary for Financial Management within the U.S. Department of the Treasury. We have concluded this function cannot be performed as well within OMB, for try as OMB might to provide sustained investment and financial management systems, it has difficulty providing the staff and resources needed for progress.

It is impossible to generate sufficient agency interest by appointing a chief financial officer at the third or fourth level of management within OMB. The agencies also know that over the past 7 years there have been two different directors of OMB, two different deputy directors, four different associate directors for management, and three different deputy associate directors for management improvement. It does not take a mathematics genius to figure out that there have been 48 different combinations of leadership for financial management in OMB over the past 7 years.

The agencies have also seen how OMB's management staff has been slowly weakened, shrinking by almost half since the Reagan administration entered office. That kind of turnover and instability sends a message to the agencies that financial management can wait, and that financial management is not a top priority.

The force of personality of talented public managers like Associate Director for Management, Jerry Riso, is not enough, especially when the budget side of OMB consistently denies agencies the needed dollars to invest in the future. It is time to try a new approach outside of OMB.

By appointing an Under Secretary for Financial Management at Executive Level 2 in Treasury, I believe the agencies will finally get the kind of support and leadership that we believe they need and want. By mandating the development of a Government-wide financial management improvement plan, I believe we will end the current policy of ad hoc agency-by-agency improvements; some which work, others which merely perpetuate antiquated approaches to financial management.

By requiring the new Under Secretary to suspend all new projects until he or she can assure that those projects will work, we will be able to stop needless enhancements before they get started while providing support for needed projects from the very beginning.

Before turning to a very busy morning of testimony, I should state my firm belief that this bill will produce genuine budgetary savings. We know that there are clear rates of return from finan-

cial management improvement, whether in interest savings, audit findings, cash management or receivables.

In fact, I believe so strongly that there is a rate of return that my bill includes a recapture mechanism to bring at least two-thirds of every dollar saved back to the Treasury. The other third stays within the agency as a form of gain sharing and should create a powerful incentive for agency heads to invest in future returns.

We cannot give a precise figure of savings from this bill. We believe that every dollar invested in financial management improvement will return at least $1.40 in savings. At the Internal Revenue Service, as Comptroller General Bowsher will testify, the return was even greater, on the order of 1,200 percent.

The savings in this bill are not from blue smoke and mirrors, but a tangible investment in making sure the Executive Branch joins with Congress in improving the budget process at both ends of Pennsylvania Avenue.

Comptroller General Bowsher will lead off the testimony this morning, followed by the Deputy Director of OMB, Joseph Wright, and a panel of financial management experts.

Mr. Bowsher, thank you for joining us this morning. We look forward to your testimony.

TESTIMONY OF CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES, U.S. GENERAL ACCOUNTING OFFICE,[1] ACCOMPANIED BY MILTON J. SOCOLAR, SPECIAL ASSISTANT TO THE COMPTROLLER GENERAL, FREDERICK D. WOLF, DIRECTOR, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION, AND JOHN R. CHERBINI, DEPUTY DIRECTOR

Mr. BOWSHER. Thank you very much, Mr. Chairman.

We are very pleased to be here today to express our support for your efforts and the Committee's efforts to bring about what we believe are urgently needed improvements in the financial management of the Federal Government. Today the Federal Government is a trillion dollar operation and we are accounting for that trillion dollars on very antiquated systems, many of them going back to World War II when we had to decentralize the systems very rapidly.

We have seen some improvements, we have seen some computerization, but by and large the systems that the Federal Government is relying on today to tell us how the money was spent or whether we have control over our assets are just not very good.

What does this mean in dollars and cents? Well, it means that we actually are constantly looking at inventory shortages when we go out to review inventories. We have found that when it comes time to try to collect more of the receivables that are owed to the Federal Government, it is difficult to collect them because of the condition of the systems and records.

Last year, the Administration wanted to have a big program on loan sales, and yet one of the problems was again with the systems that actually had the data in them. So we have all kinds of inci-

[1] See p. 63 for Mr. Bowsher's prepared statement.

dents where it is actually costing us money because of these antiquated systems.

We have long advocated an investment by the Federal Government in renewing the systems that control the money after Congress has approved the budget—namely the accounting systems and the financial reporting systems.

Now, I think that we could also point out here very clearly that the information available to the Congress and to the decision makers is all too often just kept in memorandum records. This past year the GAO was asked by the Armed Services Committee, almost where the B-1 Bomber program stands and we had to go out and collect data to get the answer. It is not different than it was 20 years ago. I remember when I was coming in as a new Assistant Secretary of the Navy. The Secretary of the Navy called me up and asked, how much has been spent on the F-111, which was the biggest aircraft program in the Navy at the time. It took me 9 months to find the answer, and those same systems are in place over there now just as when I was having trouble with finding basic answers like that 20 years ago.

As I say, so much of our work, when we do audits for the Congress, is going out and having to collect data from different parts of the organization, and different systems, to come up with answers. It just does not make sense that this great Government and this great country is going to continue with such a situation.

Now, how do we correct the situation? Well, that is what your bill is addressing and that is what I think is key here, and what I would like to concentrate most of my remarks on today.

I believe this bill gets to the major departments and agencies of the Government. In other words, we are going to mandate—if this bill is passed—the Congress is saying to the Executive Branch, we need a major effort in the 20 or so largest departments and agencies of the Government and we need to have somebody responsible for the financial management and the reports in those organizations; we need adequate systems in those organizations; we are going to have annual audits.

That would be a major role for us to play. It will involve the Inspectors General (IGs), it will involve other audit groups, but we will be able to report on how well the controls are staying in place, how well the systems improvements are being made, and that I think is awfully important.

One of the things that we have found over the years, as we have studied some of these programs, is that many programs and many systems improvement efforts get started but many of them do not get finished. Many of them do not get finally implemented and therefore we are spending millions of dollars on systems improvements that never really get put into place.

This is why I think it is so important to have a legislative base for this financial management important program, rather than just an announced program by the Executive Branch. I think you need a program that is really going to get completed this time and that is going to be monitored.

We are the ones that will do the monitoring and keep the Congress informed, based on the reports that are required by the legislation.

Now, I think that some of the issues that have come up are, where should this CFO or the chief financial person be? We have looked at this a good deal and we have come to the conclusion that it should be in Treasury, which is what your bill calls for. We think that the basic functions are already there. What they will need is to be greatly enhanced so that they can do the job that they should be doing.

To put the position over in the budget shop, which many people have argued for years, keeps it with the budget people, and therefore it has the clout of the budget.

As I testified last year before Chairman Roth at the time, it just has not worked. It has not worked well for a good number of years, and therefore I think that we should not kid ourselves that it is going to work in the future.

There is another issue that worries people, too, and that is one I would like to talk about a little bit today. That is, the accounting principles and some of the issues such as what should be capitalized and what should not be capitalized. This is an issue that we have had in the Government for many years, not only at the Federal level but also at the State and the local level.

One of the things we did in the last few years was to give a great deal of support to the establishment of the GASB. This is the Governmental Accounting Standards Board, which now exists up at Stamford, Connecticut along with the Financial Accounting Standards Board for the private sector. They have recently come out with a codification, a very large book here on all of these issues. They are working on these issues and we will work with them so that we have an organized approach today to take up these issues. I do not believe as some people argue that we have got to wait for all of these answers before we can move forward.

I think we can move forward with the systems improvements, move forward with the financial reports, and we can certainly address these various principles issues as we move along.

Another big issue is, do you need the legislation? We think you do. In other words, we think—as I have said earlier—that without legislation many of these programs get started but they do not get finished.

Now, is it all doable? I think it is doable. One of the things that I am very pleased with as I talk to different people in the major departments of the Government today is that the financial people really want to move forward on a program like this. We have debated the various issues for the last 2 or 3 years. The debate over the problems is pretty much gone.

Even the Office of Management and Budget (OMB) now, in their management report this year, recognized the problems, recognized that something had to be done about it. I am sure they are coming today with some more proposals on what they think would help, and I think that is all to the good, and we appreciate that effort.

But I think in the final analysis, if we do not have legislation such as that being proposed here today, I do not think we will get the overall job done.

So, Mr. Chairman, we appreciate very much the initiative of this Committee and we can assure you that we will support it in every way as we move forward.

Thank you.

Chairman GLENN. Thank you very much, Mr. Bowsher. I was negligent in not having you introduce the other members of your staff you brought with you this morning so their names can be included in the record and so we know who was available to us this morning.

Would you care to introduce them for us, please?

Mr. BOWSHER. Yes. On my left is my deputy, Milt Socolar. On my right here is John Cherbini, who has worked very hard on all of this financial management work. And to his right is Fred Wolf, the head of our Accounting and Financial Management Division.

Chairman GLENN. Good. Thank you very much.

The President's Management Report is quite upbeat about recent accomplishments. They have claimed a wide range of impressive savings from cash management and other financial improvements.

A recent letter you wrote to this Committee said, and I quote: "About our Government's inability to effectively hold Federal managers accountable for their financial activities," your concern about that.

So we have two different perspectives here. What is your view of that? How would you characterize the true state of financial management? I gather from what you have said before and what you said here this morning here, you do not think it is very good?

Mr. BOWSHER. No, I think it is very poor. I think some of the initiatives that they have taken are good and I think they have made some progress. On some of the initiatives they have not made very good progress because of a lack of the basic systems and financial information in the agencies.

As I cited here earlier on the loan sales, on the debt collections and, so forth, I think they have had a terrible time making progress and getting the success that they wanted, because of the basic systems. What we do not have is a real on going program to improve the systems and the information flow and the score keeping on what is happening in the Government on an overall basis.

What we have are these initiatives, as I call them, like on prompt pay and cash management. Those are good, but it does not do the overall job.

I think also, if I could add one more thing, Mr. Chairman, that is we cannot expect to get major improvements by issuing circulars. I think unless we put the responsibility and the investment in the major agencies and tell them, create somebody that has the responsibility and unless we are going to look at it on an annual basis as to what progress he is making, I think that we will just have the basic old systems really running the show. We will just have initiatives at the top, and I think that is what we have been doing for too many years.

Chairman GLENN. Well, I have the job of convincing my fellow Senators here and people over in the House of the need for something like this. They want to know what the results are going to be and they want to know what they are going to get back for an investment in new systems and so on.

That is a very difficult thing, but I would appreciate any estimate you can give of a figure for potential savings from financial management reform. Can you give us any idea of how much we

might be losing in the Government each year from continued use of obsolete systems, or how much we are going to gain, or is there just a ball park figure you can give us that has any basis in what has been experienced in Government agencies so far?

If we spend a dollar here, are we going to get $2 back? Or is it going to come back slowly over a period of time in new efficiencies? Give us a budgetary figure on this if you can.

Mr. BOWSHER. Well, we will try here. It is not easy, because you are talking about different systems and different programs. Now, we think that on the revenue side, that is where you have real payoff. In other words, take the IRS. Today the IRS systems are basically what I call 1950's vintage. They are tape systems that were designed in the 1950's. If a person is dealing with a service center, let's say in Boston, they send their tax return into there, it is reviewed, it goes onto a tape there.

That tape has to be trucked, you might say, or be sent by airplane down to West Virginia where it goes into another system. Then, if they have a refund for an individual, they have to literally get a tape from that system up to Philadelphia where they cut a check.

Now, that is the way things were in the 1950's. That is the way we are still operating. I think if we could get the revenue side of our systems in good shape, we could make a tremendous amount of money. That is also true on collections.

In other words, one of the areas where we do not have a very good system—and we have issued quite a few reports on this—is the inadequacy of the receivables systems where people owe the Federal Government money. If we had good systems in those areas we could send out letters and computerized notices and things like that based on good facts. We wouldn't be finding out that half the information we send out when billing people is wrong. Then, I think the money would flow a good deal.

So, we think there are millions of dollars of savings once you get the systems in place that affect the revenue side.

Now, on the systems that affect inventories, that is the control of inventories, I think you can take a whole new approach, like to the inventories of the military. As the Packard Commission pointed out here this past year, we are still building inventories for our military as we did in World War II. We have them in all different places. Many of the other organizations in the private sector are going to a whole new approach of keeping more minimum inventory balances and relying more on the supplier to be the person who can replenish on a more timely basis, and things like that.

We cannot do it with the existing system. So again, I think you could squeeze the investment, literally, of your assets. Now, see, our present system hardly treats these as assets on the financial books because with our budget system once we bought them, that is the end of the financial record keeping track. We keep physical record keeping but we do not keep financial record keeping.

So I think, again, you have billions and billions of dollars in the inventories and I think that you could make substantial gains there if you knew where the dollars were and how you could squeeze those down.

Another area, I think, knowing the cost of your Government programs. That then gives the legislators and the decision makers in the Executive Branch the information they need to really do a better job of making the budget decisions and knowing how the budget expenditure is unfolding, which is equally as important as all the effort that goes into the formulating the budget.

Now, those are down the road. In other words, you are not going to get those savings until you get the information systems in, so I think you are looking at, really, millions and millions. It could easily be a billion dollars or more of savings here. You will not get it the first year. That is one of the problems with the budget score keeping.

In other words, everything we do in our budget process is geared to one year. If we buy an aircraft carrier, we expense it in that year just the same as if we add one more sailor or one more person on to the payroll.

The same with our scoring on the budget process, and that is that we have to get the saving this year and take it away from the appropriation before it can be scored. That way you just do not get the long-term investments and what I call real reforms. The sad part, if you do some gimmickry, you can get that scored, according to the current system, but you cannot when you go for one of these kinds of programs.

So we went over to the Congressional Budget Office (CBO) yesterday and met with them. They agree with us that there are some real long-term savings if the program gets in and really gets accomplished, not just gets sent out as a program or a circular, as I mentioned earlier.

But they do not believe they can score any savings in the current fiscal year. But I think there are millions—I would say well over a billion is here. If this program gets in and it gets in place and the managers can use the information, I think you have got the key.

Now, this is exactly what the Congress and the Federal Government has always mandated when they have a fiscal crisis. Take New York City. As soon as we had the fiscal crisis in New York City, and we had to put a guarantee of several billion dollars there of the taxpayers money, we insisted on a new accounting and financial management reporting system from them so we would know where things stood and so their decision makers could start to squeeze that budget down, which they have done.

So the other thing that is interesting and is all over the country now——

Chairman GLENN. Even though we had not done the same thing here?

Mr. BOWSHER. Even though we had not done the same thing. One thing that impresses me now, every year I get more and more annual reports sent to me from States—New York, South Carolina, Virginia—and they are all talking about their new accounting systems, their new financial reports. They are going to GAAP accounting, which is Generally Accepted Accounting Principles, which we are mandating that to a certain extent because of our legislation, and the single audit legislation 2 or 3 years ago which is all to the good.

And they are making real progress, and we really have not made any progress.

Chairman GLENN. You mentioned inventory control. At a previous hearing—I just wanted to throw this in for people who were not here at that time—the Comptroller General pointed out to us that one of their studies, where we had asked them to look into inventory control in the military, found that inventories were in error by as much as one-third.

We did not know on some weapons systems within one-third what we had, plus or minus at any time.

Mr. BOWSHER. That is correct.

Chairman GLENN. Stinger missiles, for instance, that could not be matched up with the serial numbers, and so we had difficulty with that, and some may even be missing. We do not know whether they are in the hands of terrorists or where they are. We do not know where they are, some of them, and that is an ongoing study, I think.

I do not know whether you want to bring us up to date on any current figures on that this morning or not.

Mr. BOWSHER. Well, I do not have the current figures on that particular one, but I can elaborate on what you have just said by saying that last year we did a series of reports on inventories in the military and found just what you said. And that is, not only are we missing, and not only cannot we reconcile, but we did find that some of this is getting out to some of the worst organizations imaginable.

And so it is a very, very important issue to get on top of, and you need good financial systems if you are going to do it.

Chairman GLENN. That is an ongoing study, I would add. The next hearing on it is in September, I understand, and so you will be back with us in September, you and/or your people.

Mr. BOWSHER. Yes.

Chairman GLENN. The question then arises as to who should provide financial management leadership in the Executive Branch. You indicate Treasury is the place. Can you give us a little further detail on why you feel OMB should not be the agency? Is it past performance?

I know we will have Mr. Wright with us in a few minutes who will give some testimony, I am sure, on behalf of OMB. But why should this not be done within OMB?

Mr. BOWSHER. I think when the management part of OMB was put there several years back, which is now practically, I think, somewhere between 15 and 20 years ago—there was great hope that OMB and the management part of OMB could be a real leader and get some of these things accomplished. It just has not happened.

In fact, under this Administration the management part, as your opening statement pointed out, has been shrunk and you have very limited number of people. Now, what they try to do sometimes, and they have made some progress on some of these issues, is they get detailees up there from the agencies and the detailees work on specific projects and specific initiatives, and sometimes they can make some progress on those initiatives.

But by and large, you do not have the capability at OMB that can get a big project like this done and monitored and really working on a day-to-day basis with the major agencies. You just do not have the people, you do not have the talent, and the leadership is so consumed by the budget process. In other words, formulation of this year's budget, next year's budget, the following year's budget goes on 24 hours a day, practically, in this town and it just consumes them.

So I think that we ought to recognize that what was thought to be the way to go back there in the 1970's has not worked out and we ought to look for the most logical place.

Now, the other two options are to either move it to the Treasury, which is what we think is the best approach, or to set up a whole new function in the Executive Office of the President, which I think has some merit, but I do not think it is going to happen.

In other words, I think actually the best thing to do now is to recognize that the Secretary of the Treasury in the original legislation that was passed in 1950 was really to have this role. The function was never set up strong enough underneath him to get the job done, it seems to me, and I think that what we ought to do is go that route.

I think there are people at Treasury today that are ready to go if the legislation goes through. There is always the debate—I remember Senator Eagleton brought it up last year—will this person or will this function have enough clout to deal with the Secretary of Defense and other people like that? This will always be a problem, but I truly believe that if you get the systems in, if you get these comptrollers in the major departments, if you get this function working, I do not think there are going to be too many people then that are going to want to interfere, especially if you have annual audits coming along and reports to the Congress.

I think at that point you would have what we have in the corporate world, what we have more and more in the States and major cities in this country, and that is a real functioning comptroller or financial reporting part of your Government.

Chairman GLENN. The Deputy Director of OMB, Mr. Wright, recently wrote to me saying that OMB plans to consolidate the Government's 400-odd systems that you testified about before into one Government-wide system by the end of 1988. Is that possible? Can they consolidate that within a year?

Mr. BOWSHER. I do not think so. He is going to have a plan. He is going to have some kind of a start.

Chairman GLENN. Well, do they deserve a chance to take a crack at it anyway? I do not want to turn around and argue on their side, but I will, anyway, for the moment here.

Mr. BOWSHER. Sure. I think that maybe some of the things that they have started now should be allowed to go forward here for the next year, because I think it will be helpful in the overall process. But I truly do not believe that the Congress should rely upon that effort as the effort to achieve what this bill would achieve, and that is getting the systems working in the major agencies and flowing good data into the Treasury.

What they are talking about is an overall kind of general ledger, which is good. It is in the right direction and I think that should be

allowed to go forward, but in no way should it be held up in lieu of the effort that would go forward under this legislation.

Chairman GLENN. Well, if we had new authority given to Treasury to establish this function there, as the legislation proposes, would the things that OMB is doing now, would these be things easily transferable to this new office?

Mr. BOWSHER. Yes, it would. In fact, I think what most of OMB is planning to do now, even in their plans, is to move it over to Treasury.

Chairman GLENN. Okay. This would not be something where we would take this action and that would mean that we would then lose the work that OMB is doing now?

Mr. BOWSHER. No, not at all.

Chairman GLENN. Okay.

There have been some who have told us that we really ought not to legislate financial management this year, we ought to wait until 1989 and perhaps hold more hearings and commission a study. My view has been against that. I think we know what the problem is and we ought to get going and move into doing something about it; would you agree with that?

Mr. BOWSHER. Well, we would like to get started, and therefore we are very much inclined that way.

I can see some arguments for the idea of making some of this effective as of January 1989 to get over the political problem. Some people believe we should make it more politically neutral, let's say, by putting it mostly into effect starting with the new Administration, whichever party might win the Presidential office.

So I can see some merit in that, if that is what it takes to get the legislation through and get more of a bipartisan support for it. But as far as the need for it, I would be much more inclined to move forward.

Chairman GLENN. You referred a moment ago to chief financial officers of corporations and so on. I think we quite often say that any good corporation has a chief financial officer, or comptroller, at least. Is not the President ultimately the CEO for this country? Is not he the comptroller? Should we just leave it up to him?

Mr. BOWSHER. Well, I think that that is what we have done, literally, since 1950. In other words, when we passed the 1950 act there was an assumption that the Executive Branch and the President would get the accounting systems in good shape and everything would work out. That was one of the reasons why GAO went away from being the General Accounting Office to be, really, the auditing arm of the Congress.

But it has not happened. In theory it should have happened, but it has not happened, and therefore I think that is why we now need a new effort and some new legislation.

Chairman GLENN. Just a couple of more questions here. I referred in my opening statement—and you mentioned it later—this $600 million in foreign military sales deposits we have been unable to account for. Now, what is going on to try and figure out where $600 million went? That is not paper clip money. That is big time stuff, $600 million, and we cannot even account for it; is that correct?

Mr. BOWSHER. I would like to have Fred answer that question because it was his people that did the work and he testified on that.

Chairman GLENN. Good.

Mr. WOLF. The basic problem is that you have a trust fund which has records of the money that has been paid in by foreign countries, and expenditures that have been made by the military services—they take money out of the trust fund—and the reconciliation between what has been spent by and taken out of the trust fund and what has been accounted for to the other countries are out of balance by $600 million.

It is a systems problem, and it is also a problem that for years nobody has reconciled this, nobody has kept track of it very well. There is not an accounting at the end of any particular year, so there is very little accountability, therefore, very little discipline.

In the last year and a half DOD has undertaken a fairly extensive program, coordinated among the services at a fairly high level, to get an accounting system that will take care of it. We have suggested that once you get it in place that you also get annual audits so you make sure that the stuff stays in balance.

The reconciliation of the old $600 million out of balance is going to take a long time and, in fact, it will probably end up that we are going to owe some country some money for money that has been taken out of the trust fund and either we cannot account for it or it has been used for things other than what it was intended, and I do not mean that in a bad sense.

But that is a lot of money that we have not accounted for. At any one time, there are $6 or $7 billion in that trust fund.

Mr. BOWSHER. If I could just add to that, Mr. Chairman, we knew there were problems in those systems in the middle 1970's. They have been reported on before. This is the area General Secord was in charge of when he was over at the Pentagon before he retired from the service. This is the area that there have been all kinds of suspicions on over the years.

You know, people come up and say we are going to fix these systems, we are going to do this, we are going to do that. The truth of the matter is, unless you have this overall system that ties it all together, that can be audited on an annual basis, you are going to have these kind of repeats of problems and no final solution, and OMB just does not have the people to go over there and check to see whether that initiative that somebody promised really got done.

Chairman GLENN. Well, another one, just as an example, I recall from a previous hearing—and I think my recollection of figures is approximate here, but I think it is pretty much on—we voted $27 million worth of humanitarian aid to go to the Contras in Nicaragua and it was strictly humanitarian aid. It was for medicines and so on, but not for any weapons system.

Your office tried to track down what had happened to that $27 million, and as I recall, the records were such that we could only account for $9 million, and within that $9 million one of the identifiable items was $80,000 for hand grenades. That is great humanitarian assistance.

Mr. BOWSHER. Right. That is correct, Mr. Chairman.

Chairman GLENN. Is the rest of it still missing, or have we located the other $18 million or so?

Mr. BOWSHER. No, we have not. We have actually got a request in to the Committees for when they get finished, if we can look at some of the records, because we were told that if we could look at some of those intelligence records, we would see the explanation. We are very dubious of that and we would still like to follow-up on that whole issue.

But I think that is a good example. Here is a $27 million program set up by the Congress, voted by the Congress, and there should be no reason why the State Department, which was assigned responsibility for that, should not have an accounting system that could keep control of that.

Now, when Elliott Abrams was the witness, somebody asked him, what did you think of the GAO audit of the $27 million? He said it was unfair. It was unfair because all they had was foreign service officers trying to keep the records and GAO should not have come over and asked those tough questions, is basically what he was saying.

I think that kind of attitude is ridiculous. It is the same—I think one time I testified before you earlier this year when we were talking about money that goes out to countries like the Philippines and that and it all gets commingled and we lose control and people literally can steal from the American taxpayer. We do not have the records, we do not have the systems to audit and to check and to know where things are, and I think it just does not make any sense.

Chairman GLENN. Well, we will be getting into the details of a lot of that sort of thing later on this year. I know this was not the hearing, but it is a good example of why we need to change our systems and make them more inclusive, and so on.

Is there anything else you wanted to add? Is there anything you would like to see added to this bill to make sure that it is effective and is taken seriously? Anything that would make it better than what we have in it?

Mr. BOWSHER. I think that there are some technical issues that we can work on with your staff and get improvements, but by and large the latest draft of the bill looks quite good to us.

I do not think we have anything major right now that we would want to bring up.

If I could bring up one point though that Milt just reminded me of, and that is, as we talk about the expenditure and the investment for these new systems, we should recognize that we are spending, as you pointed out, an awful lot of money on improving existing systems and we do not know whether they tie-in to the overall system, and a lot of it does not come to fruition.

So I think that one of the big things here is not that it is going to cost a lot of money for the new systems, what we really have to do is make sure that what we are spending is going to produce something that then ties together and can be audited and gives us the information that we need.

So I think that this is an area that if we just spend the money we are spending currently on new systems properly, I think that we can accomplish pretty much what has to be accomplished.

Chairman GLENN. OMB has recently appointed a chief financial officer. Do you think that will make a major difference?

Mr. BOWSHER. I think that they have appointed a chief financial officer to try to defuse the issue. I think it was something that was long overdue in the Executive Branch. I think that Jerry Riso is a good man whose appointment, as I understand, is going to be announced today. We have enjoyed working with him and we will work very closely with him in the next 18 months.

But he will be gone, probably, at the end of 18 months, and I am not sure that that function will continue. They have moved it all over OMB. They even moved it out of OMB some years back, over to GSA, and I just do not think you will see the continuity of the function myself, unless we have legislation and put it in Treasury.

Chairman GLENN. Before we end, I would like to give the opportunity for any of the rest of you to make any comments you might want to make here, or anything that you have been thinking of here that you might want to add.

Mr. Socolar, do you have anything you wanted to add?

Mr. SOCOLAR. No. The only comment that I would have made is one that Mr. Bowsher just did make. To me, it seems extremely important that we get control over the money that we are spending now. We are building systems, and what we need is some oversight, some control over how that money is being spent, so that when it is all put in place, we have something that is useful.

Chairman GLENN. Fine. Mr. Cherbini?

Mr. CHERBINI. Senator Glenn, I would just like to say that having come to the Federal Government from working in the State and local environment, we have worked at the State and local environment on systems like these and saw major improvements in the financial management at that level. I think it is long overdue up here and it is something that we need to get moving on and I think your legislation goes a long way towards this.

Chairman GLENN. Are there track records that would give us an indication of what can be done on this level or with what we are trying to do here where we could use different States as an example of what has happened? If there are such examples, I would appreciate having them so we could include it in the record of this hearing.

Mr. CHERBINI. Absolutely. We can get that kind of information for you.

Chairman GLENN. I am not looking for a Sears Roebuck thick report from the States, but if you can give us summaries of how it was going along before and what happened after and give us some good examples of what happened there, I would appreciate that.[1]

Mr. CHERBINI. We can do that.

Chairman GLENN. Good. Mr. Wolf, any comments?

Mr. WOLF. I guess I would get back to one issue which is—it is not a major point—but the issue of, are there some savings in there. One of the things that concerns me is that we are spending a lot of money today—a billion dollars a year maybe—on accounting and financial systems, without some agreed upon plan and without some standardization.

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[1] See p. 164.

I am convinced that if we get the kind of standardization and agreed upon systems requirements, that we will in fact end up saving money on those systems implementation projects. It will cost us a lot less money.

So I think that even in the relatively short term there are some cost savings. In fact, we talked to CBO about that and I think they are beginning to understand and to see that point as well.

Chairman GLENN. Okay. Thank you very much, gentlemen. We will be seeing you at subsequent hearings, I am sure, and thank you very much.

Mr. BOWSHER. Thank you, Mr. Chairman.

Chairman GLENN. Our next witness is Mr. Joseph Wright.

I will call the role here on our panel. Mr. Wright was going to be here about 10:30, I believe, but I believe we can get started with our other panel here.

Mr. Susumu Uyeda, is he here? Good. Fine. Mr. Haller, is he here? Good. Fine. Thank you. We will take Mr. Wright's testimony later on.

Mr. Susumu Uyeda, if you will come to the table, please, is research director for the Private Sector Council. Ed Haller is with Price Waterhouse. Roland Burris is Comptroller of the State of Illinois. Joe Donlon represents the Association of Government Accountants. Richard Kusserow is Inspector General, Department of Health and Human Services.

Gentlemen, we welcome all of you to the hearing this morning, and we look forward to your testimony, either in full or in abridged version. In any event, it will be included in the record as though delivered in its entirety, and we welcome our distinguished ranking minority member here, Senator Roth, who as I said in my opening statement has done work in this field for many years here as Chairman of the Committee and been interested in this area for a long, long time on how we set up our financial accounting systems and so on.

Senator Roth, do you have any comments you want to make before we go ahead? We just finished with our Comptroller General.

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. I ran into him in the hall, Mr. Chairman. I want to congratulate you and thank you for continuing on an issue that I think is of critical importance. I think it is very bothersome that the financial management system in the Federal Government for supplying information is unreliable, inconsistent, untimely and incomplete.

Current practices do not show the actual cost of running the Federal Government. Agency financial statements are not comparable one to another. They cannot be judged side by side. There is no way we in the Senate can fully determine the programmatic impacts of the legislative decisions made on the basis of information reported. To make matters worse, often the information is reported in such an untimely manner that the decisions must be made on dated, inaccurate information.

I have a longer statement, Mr. Chairman, but in the interest of conserving time, I would ask that it be included in its entirety.

Chairman GLENN. It will be included.

[The statement of Senator Roth follows:]

PREPARED STATEMENT OF SENATOR WILLIAM ROTH

Financial management in the Federal Government has long been a major concern of mine. I'm quite pleased that Sen. Glenn has followed up with this issue and is now holding hearings. The Federal Government is in dire need of getting its financial house in order.

I have a long history of concern and work in this area. Last year, as the Chairman of the Governmental Affairs Committee, I introduced S. 2230, the "Federal Management Reorganization and Cost Control Act of 1986", which embodied the ideas behind the "Federal Financial Management Reform Act of 1987".

The financial management systems in the Federal Government supply information that is unreliable, inconsistent, untimely and incomplete. Current practices do not show the actual costs of running the Federal Government. Agency financial statements are not comparable one to another, so that they cannot be judged side by side. There is no way that we in the Senate can fully determine the programmatic impacts of the legislative decisions made on the basis of information reported. To make matters worse, often the information is reported in such an untimely manner, that the decisions must be made with dated, inaccurate information.

The Federal Government's lack of effective financial management and accountability is being pointed out again and again in reports by agency heads, the GAO and other groups. At a hearing yesterday, on cash management between the Federal and State Governments, a witness, a state comptroller asked why don't we, the Federal Government, practice what we preach. Why is the Federal Government not requiring of itself what it requires of state government? The Congress and the Executive branch must be supplied with reliable, consistent, timely and complete financial information. Financial systems should be able to provide information that tells what the cost of government is. I believe that a Chief Financial Officer is needed to develop and implement these systems. This Financial Officer would require the building and have the authority for maintaining an effective financial structure including development and implementation of a financial plan; maintenance of quality, skilled personnel to carry out the plan, and; establishment of systems to bring about the necessary accountability.

We must continue to do all we can to bring financial management systems up to par and to provide for better reporting of the Government's financial situation—to encourage a responsible, accountable government. Although there are sections where this legislation needs refining, I feel that it is a place to start building. I view this hearing as sounding board for ideas to use in strengthening the legislation, and I look forward to working with the Chairman to achieve the goals so long sought by this Committee.

Chairman GLENN. Thank you, Senator Roth.

We will start off with the first on my list here is Mr. Uyeda. Am I pronouncing that right, Uyeda?

Mr. UYEDA. Yes, sir.

Chairman GLENN. Good. Fine. He is research director for the Private Sector Council. We look forward to your statement.

TESTIMONY OF SUSUMU UYEDA, RESEARCH DIRECTOR, PRIVATE SECTOR COUNCIL;[1] ED HALLER, PRICE WATERHOUSE;[2] ROLAND BURRIS, COMPTROLLER OF THE STATE OF ILLINOIS;[3] JOE DONLON, ASSOCIATION OF GOVERNMENT ACCOUNTANTS;[4] AND RICHARD KUSSEROW, INSPECTOR GENERAL, DEPARTMENT OF HEALTH AND HUMAN SERVICES;[5]

Mr. UYEDA. Thank you, Senator. Senator Glenn, Senator Roth.

The Private Sector Council appreciates this opportunity to express its views on your draft bill. The 140 major corporations, foundations and associations that support the Private Sector Council applaud and congratulate you in taking the first giant step to establish an Under Secretary for Financial Management in the Department of Treasury and to develop an integrated Government-wide financial management systems. We all know too well that this step is direly needed, and we support your draft bill wholeheartedly.

At the outset, we would like to say that the present Administration should be praised for giving more attention to financial management matters than any preceding Administration in modern history, and for undertaking many significant and excellent projects. However, the numerous worthwhile projects that the Administration has initiated or plans to initiate will not be completed in the next 18 months. It is this fine program and momentum, coupled with the ability to develop and enforce a long-range plan, that needs to be institutionalized.

At best, every change in Administration, and even a change in the leadership in the Office of Management and Budget, is accompanied by a period of disruption, inactivity, loss of inertia, and changes in emphasis, priorities and direction. At worst, there is a total disregard for management matters. It is difficult for some of us to forget that not too long ago there was such a low interest in financial management that the financial management function itself was literally exiled from the Office of Management and Budget to the General Services Administration. It took an Act of Congress to reverse that decision.

I mentioned this to emphasize that legislation is needed to establish an institution that will: one, think about the kind of financial management system we need in the 1990s and beyond; two, prepare a long-range plan for that purpose; and, three, have the power to continue to enforce its implementation.

For the proposed legislation to be more effective, we believe that the issues of continuity and clout need to be fully addressed.

One step towards assuring continuity is to establish the tenure of the Under Secretary that would be long enough to allow him or her to set priorities, establish short- and long-term objectives, and still have ample time to achieve them. A typical political appointee rarely stays on the same job more than 20 months, giving him or her barely enough time to become familiar with the operation and

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[1] See p. 79 for Mr. Uyeda's prepared statement.
[2] See p. 88 for Mr. Haller's prepared statement.
[3] See p. 95 for Mr. Burris' prepared statement.
[4] See p. 101 for Mr. Donlon's prepared statement.
[5] See p. 130 for Mr. Kusserow's prepared statement.

to accomplish quick fixes. Therefore, we need someone who will strive for long-term goals and objectives. At a minimum, we believe that the tenure of the Under Secretary should be 8 or 10 years.

With respect to clout, the Under Secretary must be able to make things happen. He or she must have the strong backing of the President and the Congress. He or she must have a close working relationship with the Director of the Office of Management and Budget, the Secretary of the Treasury and the Comptroller General of the United States. In this manner, the Under Secretary would be able to proceed with the confidence that he or she has their full support and blessing.

Another effective way to express sustained support and unyielding commitment to the Under Secretary would be to provide him or her with a budget for financial systems from which funds would be distributed for use by departments and agencies consistent with the overall, long-range plans and objectives. Thus, he or she automatically becomes an active participant in agency planning, budgeting, and overseeing the development of modern and effective agency financial systems. Through this process, redundant developmental efforts can be identified and avoided; interagency cooperative efforts can be initiated and sustained; centrally directed models can be developed for multiple agency use; and consistent and compatible financial data can be generated throughout the Government.

In corporate America, the centralized approaches in orchestrating the development of financial management systems have had great success. The approaches may differ as to the degree of centralization—this is, the centralization of information requirements and standard setting, centralization of system developments to be used at multiple locations, and centralization of design and operations of the financial and information systems. Nevertheless, the essential common denominator is the existence of a central, long-range planning function and strong enforcement mechanism to achieve the desired, ultimate system.

We know that the centralization of financial systems development has worked well in the private sector. We believe that, given the proper authority and mandate, it will work well in the Government.

In conclusion, we again applaud your effort, and we wholeheartedly support your proposal. However, we strongly urge you to consider strengthening the Under Secretary's position to provide more continuity and clout.

I will be delighted to answer any questions you may have after the panel has completed their presentations.

Chairman GLENN. Thank you very much, Mr. Uyeda. I am going to have to take a little unusual action here. We just got the panel started, and I thought we might be able to get clear through this before Mr. Wright arrived. He is here now, and we had told him he would be on about 10:30. He has other commitments. And if we could, I would like to interrupt the panel here and, if we could, let Mr. Wright give his testimony. I hate to do this, but I think that is what we had better do. Then we will get back to the panel here as soon as we can at the end of Mr. Wright's testimony.

I appreciate that. Thank you very much. If you can bear with us here a few minutes, we will have Mr. Wright. I thank the panel for bearing with us on this. I have to have sort of a truncated operation here as far as the panel goes. It does not mean that you are any less important than anyone else around here; just that there are some time constraints that we had indicated with Mr. Wright we could accommodate some of his problems this morning. We appreciate you bearing with us on this.

Mr. Wright, we have had the Comptroller General on already, and he finished slightly earlier than we had anticipated. We appreciate your being here with us. We would like to have your testimony either in full or abridged version. In either event, your testimony will be included in full.

TESTIMONY OF JOSEPH R. WRIGHT, JR., DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY JERRY RISO, ASSOCIATE DIRECTOR, AND JAMES MILLER, DIRECTOR, OMB

Mr. WRIGHT. Okay. Thank you, Mr. Chairman.

With me is Jerry Riso, who is our Associate Director at the Office of Management and Budget for management. I would like to take my rather lengthy testimony that I am sure that you will be delighted with and submit it for the record.[1] if I may, and just add a few comments.

Chairman GLENN. We guarantee we will read every word of it, and it will be included in full.

Mr. WRIGHT. Let me explain, Mr. Chairman, a bit, if I can, why it is long testimony, because I think Senator Roth will say that the fact that he over the last 5 years has seen me come up and testify that this is probably three or four times longer than my most lengthy testimony before this Committee. The reason is because there was a feeling that not quite enough has been done in this whole area of financial management. I thought it was very important to go and use this forum—which, by the way, I welcome—to put it on the record on a project that we have had as one of our top priorities, and also to give a feeling to this Committee of the enormous amount of work that has been done and the very, what I would call, important stages that we are in developing financial management systems for the Federal Government.

I would also like to say that in some parts, when I hear that, I am a little bit concerned because this has probably one of my personal, number one projects within the Federal Government since I came in. It goes back to the time when I was the Assistant Secretary for Administration at the Department of Agriculture, and we established the National Finance Center down there, which I believe GAO would even say at this stage is probably one of the most efficient financial and administrative processing centers in the United States Government.

As a matter of fact, I believe they are planning on transferring their systems down to the National Finance Center. So it is quite a long record of upgrading financial management and administrative

[1] See p. 140

management systems in the Government, and I would like to leave this morning with the feelings from the Chairman that quite a bit has been accomplished and that we are moving ahead in full steam.

At the first part of the testimony, I tried to give a good definition of what we consider to be financial management. We include everything from cash management, credit management, to property systems, to administrative processing, to your general ledger system, to financial accounting systems and all the rest, for one very simple reason, and that is, I believe, Mr. Chairman, you said that as tough as it is to reduce programs these days in reducing the deficit, we cannot allow just for wasteful spending to go on that has just dropped off the end of the table through sloppy financial management or any type of administrative system.

I totally agree with you, and that is the philosophy that we had when we first came into this Administration in attacking this problem. What we saw in those very early days in 1981 is basically no cash management system. Now, in those days, we had a cash flow, not including interagency transfers coming in and out, of about $1.3 trillion. We're about $1.8 trillion today. In those days, we had no credit management systems that were Government-wide with agencies that were paying more attention to lending funds than collecting them.

Unfortunately, the way our budget system works, there was basically no cost to having a direct loan go delinquent on you, except as an off-setting receipt that could be used for more loans, and that was about all. We really had, as I think you have mentioned, 400 financial accounting systems; there are about 100, 125 of them that are primary; very few internal controls and all the rest of it.

I can remember when I first came into my job over at the Office of Management and Budget coming and sitting down with Chuck Bowsher and saying that the upgrade of the financial accounting systems was one of the highest priorities that we, as two agencies—the Office of Management and Budget and the General Accounting Office—has, and we have proceeded along that line.

I can also remember when it was about the second or third week after I came to OMB that I got a call one evening that said, "Can you present an update on the management systems and the progress we are making to the President?" And I said, "Sure. When did you want to do this?" And they said, "Tomorrow morning."

So I got out my little grease pencil and papers, and went in and made about a 5-minute presentation, and was given the instructions for the next 40 minutes by the President and the Cabinet that what we did in coming into Government was to make fundamental changes in the way the Government operates, much like what you have been talking about, Mr. Chairman, not to go and just work on reducing publications, reducing printing plants, reducing administrative costs, but fundamental changes. That is the direction that we have been pursuing.

Now, also what we have done is over the year we have been coming up before our Oversight Committee, which is the Government Affairs and Government Operations over in the House, and have been presenting our priorities and also have been reporting

them primarily for the purposes of our Oversight Committees, but also the entire Congress, in our management report to the Congress that goes up with the budget. I believe we are in our third printing right now and hope that this will continue to go on, if you want to call it, as an ongoing process for future administrations, because I believe that any administration should report to the Congress on the improvements they are making in the management of the United States Government.

I will go further on that in a little bit. Now, in the testimony I said that one of the things that we attacked first was cash management. The reason was simple; we were simply losing billions of dollars, in my viewpoint, every year because we had no cash management system.

When I tell you, Mr. Chairman, that checks were being stacked in rooms in canvas bags drawn off banks in Alaska to be deposited in banks in Delaware or whatever it is, through a Federal office in Kansas City, I am really not kidding. The concept of "float," up until a few years ago, did not exist in most agencies in the Federal Government. The reason was simple; it did not hit their bottom line, it did not hit their budget. Treasury is the one that was responsible for the cost of financing. Now, hopefully, that does not exist any more.

In September of 1981, OMB began with a directive to all executive agencies on cash management and reviewing payment practices. In May of 1982, the Prompt Payment Act was enacted. Several months later, we came out with our new circular, A-125, implementing that. Lockboxes within a couple of years started going into place. Electronic funds transfers started going in place.

Today, you have got 60 percent of Federal employees' salaries and 45 percent of payments to beneficiaries are paid by electronic funds transfer, and the majority of bills, unlike the way it was before the Prompt Payment Act, are now being paid on time 84 percent.

This, Mr. Chairman, has not been an easy project to implement. It has taken a combination of the Office of Management and Budget with strong direction from the President, with presentations on this subject perhaps every 6 months to the full Cabinet, using the financial management group over at Treasury, and reviews every single year through the budget process to make sure this has gotten in place.

I have got to say that while in the testimony we put down 1987 cash management savings of about $689 million, Mr. Chairman, I think it is more than that. I think Treasury is being conservative, and I have got to laud them in their efforts in this thing. But it has been a rough, rough project. I am proud of what the entire executive branch has done.

I am saying we are going to go further in that area. This fall, a Government-wide network will be established to support agency acceptance of credit cards. So we are not just changing the way we operate in Washington, D.C. We are really basically taking it across the country. Forty agencies tell us that they are serious about accepting credit cards. I think the volume of the Federal credit card business by 1991 we say could be $6.5 billion. Mr. Chairman, I think it will be over that.

Now, I think they can be used to collect debts, whether it be student loans or whether it be to pay fees to the Customs Service, or whether it be buy items from the Treasury or the mint. I know the Internal Revenue Service will be working with us in seeing whether or not we can apply this to the payment of taxes. I believe that we ought to get our act together at the Federal level and start working with State and local governments on the many tests that they already have under way on the payment of welfare checks as a result of the use of smart cards or advancing technology.

Now, I would like to go from there—because that is a subject that we could take up all by itself, but it is the first area that we hit simply because of the fact, Mr. Chairman, that we were hemorrhaging badly at the Federal level, and we were just letting cash go flying out the door. That is not happening to that extent any more.

In credit management, that was the second area we took on. Very simple. We had Federal portfolios that were growing out of control and delinquencies that were getting worse. In 1976, our direct loans amounted to $85.9 billion. In 1981, they had grown to $185 billion. Our guaranteed loans were $217 billion; they grew to $320 billion by 1981.

Now, while that is a great amount, Mr. Chairman, that is not what bothered us. What bothered us when we came in is we could not get any idea of what the delinquency level was. There was no standard write-off problem. There were no standard collection procedures. There were no real automated collection systems that had been in use in the private sector for many years. Interest and penalties and administrative expenses were not charged. We had somebody that came in and hit three or four of our agencies in one year on different loans and defaulted in all those loans because the agencies could not clear with each other in terms of credit.

In other words, we had a disaster in the making. We took our first cut in 1981 as to what the delinquency level was of the portfolio. When we took our second cut, we found out that that year the delinquency rose by 43.6 percent in one year. If that would have been allowed to continue, you would have seen a very large write-off right about now on the guarantees that have been made in the prior, let us say, 10 years that were going to come and were going to burn us on the bottom line on the deficit badly. So we had to crash and put in a good credit management system at the same time we were putting in the cash management system.

Now, we have had some good success in the areas we have focused on, and I list then in excruciating detail for the Committee because every one of those, again, has also been a tough road because the Federal agencies that we have to work with—Mr. Chairman, again, this has not been one of their priorities over the last 30 years, collecting debt. Their priority has been handing out loans.

Now, since the Debt Collection Act was passed by the Congress in 1982, we are doing a full pre-screening of all loans before they come into the Government. That is going to be 1.3 million or more credit reports can be obtained. We are reporting all of those who go into serious delinquency or default back to the credit sector to affect their credit rating. There is going to be 1.8 million of those or more by the end of this year.

We are already proceeding with using collection agencies. We are coming up with a second group of contracts that will be done this fall by October 1st. The loan asset sales program is a pre-runner for good credit management on the credit reform proposal which we have submitted up to the Congress, and we sincerely hope, Mr. Chairman, that it will be part of the budget process reform that is now being considered by the Congress. It seems to me that reconciliation would be the most common sense vehicle for that to be passed. That would be the best way to eventually go on it. But beyond that, we think that that program is now across all agencies within the Federal Government, and can be, along with the cash management, one of the greatest impacts of good financial management in the Federal Government.

Now, we had an announcement yesterday, and there were only two things that I would like to bring to the Chairman's attention, which I called Paul up yesterday and mentioned one of them. First of all, we had a very successful experiment in Philadelphia about 3 or 4 years ago in which the U.S. attorney was working with the U.S. marshals, and for those people who did not pay back their debts, they went and impounded cars. They took a television crew right behind them. You can imagine most people did pay back their debt. They got an additional amount that saw it on television and paid without even being asked for it. We would like to go and work an extension of that across the United States in selected cities, and I will be meeting with the Deputy Attorney General the week after next to make sure that happens.

The second part is we do not believe that Federal employees should get by without paying their loans back to the Federal Government, and we have now completed a full computer match with Federal employees in the executive branch, and we have identified 141,000 who have not paid back their loans, from student loans to veterans loans to travel advances and all the rest of it. That amounts to a little over $340 million. We will be making announcements within the next several months. They will be 60-day announcements. If they do not pay back, Mr. Chairman, we will start garnishing their wages at 15 percent per pay period.

Now, we will finish that through the executive branch by this December, and we would like to go and plan to extend that to the legislative branch and the judicial branch to make sure that all those who are paid by the taxpayer do honor their payments of loans back to the Government. Like I mentioned, we will be working with the Committee to make sure that this is done in a very smooth way.

Now, I would say net on the credit thing that that has been very, very successful. We are having some problems. The problems are getting our point across that our loan asset sale program is a good credit management program where we use the best practices of the Federal Government, and that is the policy making, on granting credit, and the best practices of the private sector, which is the financing and the management of the credit. Whatever help you can give us, we would appreciate it.

Secondly, we think it is extremely important to properly identify the subsidies. When we talk about financial management, a direct loan should not be charged to the budget 100 percent regardless of

the subsidy the day it is made, and a guarantee should not be looked upon as free. That is just bad accounting. So we have a proposal up, which, by the way, was generated in the Congress by Congressman Gradison and Senator Trible and been joined by Senator Heinz. So whatever support you can give us on that, we would appreciate it.

On the financial accounting systems—oh, one last thing on internal controls, that is financial management, but that is financial management where not only it is within the budget and the financial accounting systems, but where it really hits the road. It is saying are you applying the principles of your accounting systems to the programs that you are managing? We have been working very closely with our friends over at the Government Accounting Office, and we think that we do have implementation of the Federal Managers Financial Integrity Act with the vulnerability reports and all the rest of it. It is not perfect, but we are getting there and we are trying to resolve the material weaknesses. I think that, in combination with everything else, is very important.

Now, on the financial accounting systems itself: Mr. Chairman, on some of the statements that we have heard, we strongly, strongly disagree with the fact that we have a project under way with no central clearance and coordination.

Chairman GLENN. With what, sir?

Mr. WRIGHT. With no central clearance or coordination. I cannot imagine having any more planning or central clearance or coordination. If we had any more than this, we probably could not get the agencies to come to the meetings. We have started these plans 5 years ago, and I want to go through the process that we have gone through. I have laid it out in the testimony.

It is included in every single budget. It is included in every single management plan. We have had Cabinet meetings on these several times a year. What I would like to do is enter for the record—by the way, a little bit to the dismay of some of the staff at the Office of Management and Budget, these are implementation plans in detail with dates and steps of where they are going to get done between now and the next 2 years. With your permission—this is not in my testimony—I would like to put this in the record.[1]

Chairman GLENN. That will be.

Mr. WRIGHT. I would invite, as a matter of fact, I would welcome the Committee or anybody else on the outside to hold us on those days of when it is going to get done, because those plans are in the budget.

Now, all agency systems are being developed in accordance with the Government-wide standards that were developed and issues in November 1984 by GAO, and we worked with them very hard on that. In December 1984, then we sent out our Circular A-127 implementing those standards. All agency proposals for financial systems development are being carefully documented in their budget, and they are being evaluated for compliance with OMB and GAO requirements. A U.S. Government Standard General Ledger chart of accounts was issued in September 1986.

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[1] See p. 208

Now, Mr. Chairman, let me tell you how that was done. We took the Department of Defense general ledger system, and we brought it over using the Department of Transportation as the lead agency on that and went through an excruciating 2-year project. And you know how tough it is to get the Department of Defense and the domestic agencies to go and work together on anything. They agreed on the gut of the financial accounting systems, which is the general ledger system. That fits GAO standards, and it fits OMB standards and Treasury. That was done. Government-wide implementation of the 120 plus primary financial accounting systems into a single, compatible financial accounting system, which you are talking about, is scheduled for the end of 1988. I welcome you to take a look at the implementation schedule and tell me where we can shorten it. I do not think we possibly can because we have the RFP, the Request For Proposals, to the private sector going out in 2 months. We are doing a turn-around time on that of about 3 months. I do not think we can cut it beyond that on basic ordering agreements. Four or five firms will be selected, and we have given the agencies only 2 or 3 months to get back to us with the final implementation schedules, and then we have given them only 9 or 10 months to actually implement it. We are controlling that through the budget.

Now, agencies have also been developing, as a result of OMB and Treasury working together, strategies on the most efficient way of handling their financial accounting. Let me tell you, we have been pushing this thing called cross-servicing. If you are not a large enough agency, do not put in a financial management or a payroll personnel or administrative system by yourself. It does not make any sense; it is a waste of money. And they have been working very well. Commerce, Education and some small agencies are all receiving major accounting services from Agriculture's National Finance Center that I mentioned earlier. HUD and Smithsonian are in the process of doing the same, and even the GAO has recognized the merit of that approach and they are planning to do the same.

In addition, Treasury is in the process of developing a capability for cross-servicing small agencies, and in fiscal year 1989 they will be providing an accounting report to 16 small agencies and 17 more by 1990. Preliminary plans right now are being developed in the Department of Interior to develop another National Finance Center similar to the one at USDA. State and the FBI have recently acquired off-the-shelf accounting systems with vendors which provide for the fast implementation of their improved system. Interior and SBA are nearing the completion of the purchase of such systems.

The Joint Financial Management Improvement Program is well under way in a project to develop a set of generic requirements with the basic accounting system of any large agency. They are going to be completing this in September, and that will be part of the RFP going out.

I can go on and on and on.

We have described this, Mr. Chairman, in this document which is the management report to the United States Government. We did not go into as many details as I did in my testimony because you would have had a document here that would have looked like the

New York telephone book. But it starts on page 24, and it goes through page 30, and it laid out what our plans were.

Now, this document looks just exactly like this document, Mr. Chairman, which is the budget document, for a very good reason: Because in this town, rightly or wrongly, this document talks. This is the budget; this is money; this is people. So we purposely took this and integrated the two because that is the only way you can get these programs and these improvements implemented. You have got to pay for those computers. You have got to put the people in place. You have got to go and capture the savings so that they do not just go into more programs that may be wasteful or not approved by the Congress. So, therefore, it has been very closely coordinated throughout the entire process.

We have proposed, Mr. Chairman, in the past, for several years, to this Committee, and we do so again. We would welcome this being legislated; that this President and future Presidents be required to submit under the auspices of this Committee—which is our Oversight Committee—a management of the United States Government report. Mr. Chairman, you can state what you would like to see in it. You can put together the chapter heading. Because we think from a continuity standpoint, I think as you brought up before, that is a serious concern, and we want all of these hard work that we have gone through in the last 5 or 6 years, and the results that are going to be achieved by the end of next year to be continued in future administrations.

Now, finally, I would like to say that Jerry Riso is with me today for a very good reason, and that is we are going to be announcing that he is going to become the new chief financial officer of the Federal Government, and we take that seriously, and he will be overseeing, like I said, the final 2 years of the implementation of this 6- and 7-year project.

I would be happy to answer whatever questions you may have.

Chairman GLENN. Thank you very much, Mr. Wright. While I am very complimentary to you for the work you have done on credit cards and debt collection and some of the things like that, I think basically what we are addressing here is a much broader problem of the financial management and the structure within all the agencies and all the departments of Government and who supervises that, more than we are the specifics.

You were not here when I made my opening statement. I do not mean that in a bad way—you were not expected to be here then. But I wanted to repeat some things I said then because I think they are important, in response to what you have just said.

I talked a little bit about getting agency interest and departmental interest and that I doubted we were going to do that by appointing a Chief Financial Officer at the third or fourth level of management in OMB. And I said, beyond that, and I quote:

> The agencies also know that over the past 7 years there have been two different directors of OMB, two different deputy directors, four different associate directors for management, and three different deputy associate directors for management improvement. It does not take a mathematics genius to figure out that there have been 48 different combinations of leadership for financial management in OMB over the past 7 years.
>
> The agencies have also see how OMB's management staff has been slowly weakened, shrinking by almost half since the Reagan Administration entered office. that

kind of turnover and instability sends a message to the agencies that financial management can wait, that financial management is not a top priority. The force of personality of very talented public managers like Associate Director for Management, Jerry Riso, is not enough, especially when the budget side of OMB consistently denies agencies the needed dollars to invest in the future. It is time to try a new approach outside of OMB.

That is where I then suggested what we do in the legislation, we go to a financial management at executive level II in Treasury as the spot to do this.

From this end of the avenue perhaps we have a little different perspective. You made a point of the strong direction from the President personally on this. I would submit to you that we do not have that same view at this end of the avenue, when we wait for 6½ years into an 8-year Administration before we appoint a Chief Financial Officer at the third of fourth level with an OMB. I just does not all fit together.

I am proud, as you are, of the work you have done with regard to credit cards and debt collection and so on, but I do not think we have had that kind of direction. If we had, I doubt that this bill would have been necessary. You say that by the end of this Administration you will have 120 different accounting systems combined into one. GAO has testified that we have 400 systems. What is happening to the other 280 in Government that we have identified that are not being brought into this?

So I do not know why we have waited this long into this Administration to get going with it. That is the reason we have a bill like this today, is because we feel that there has not been enough action in this regard, and I just think that what we are looking at is trying to set up something where we have some standard accounting.

We have example after example after example that came out in earlier hearings, and a couple of them were repeated here this morning, on things where we do not think there has been adequate management. I guess we have sort of given up on OMB's ability to really bring us out of the woods on this.

You are proud of the job you have done over there and I, for the third time, will compliment you on these things that you have done that I think are constructive, too. But it has been the view of us that have looked at this for a long period of time on this Committee that we do not have any Government-wide financial management now that is worthy of the title.

Taking action now, 6½ years into this Administration is hardly an indication that there has been a lot of action on this and that we are really going to solve our problem here in the last year and a half.

I think that sort of summarizes my view on that. Obviously, we disagree on this, from your testimony.

We heard testimony earlier, General Secord was in charge of foreign military sales receipts, and we cannot reconcile those accounts within $600 million so far, no matter what GAO has tried to do and no matter how they have tried to get into it. How does OMB look at that? That is $600 million. That is not furniture money. That is not pin money.

Mr. WRIGHT. No, that is not an asterisk. If you get over $500 million, you get beyond the asterisk.

Chairman GLENN. No, it is not an asterisk to a footnote; $600 million is real money.

Mr. WRIGHT. I agree with that, Mr. Chairman. May I respond?

Chairman GLENN. Sure. Certainly.

Mr. WRIGHT. First of all, just on the leadership—I am just taking them down the points that you mentioned, not disrespect at all.

You are right, there have been two directors and there have been two deputies at OMB.

Chairman GLENN. And a whole bunch of other folks there. It gives you 48 different combinations of no leadership in financial management, basically.

Mr. WRIGHT. I understand. But in Treasury, there have been two Secretaries and three deputies. I am sorry, I am being a little cute.

Chairman GLENN. That is all right, go ahead. You can reply anyway you want.

Mr. WRIGHT. It is not three or four levels down, Mr. Chairman.

Chairman GLENN. Well, what is it?

Mr. WRIGHT. This has been really managed very much at the number two level, strongly.

Chairman GLENN. Well, what level is Mr. Riso going to be under Mr. Miller?

Mr. WRIGHT. He is at the number 3 level right now.

Chairman GLENN. Well, the reason I said three or four, it is my understanding from what I have been told—this is sort of an anomaly here—it is between three and four somewhere, so I will give you the benefit and say it is only three levels down.

Mr. WRIGHT. Not really. Mr. Riso reports directly to Mr. Miller and myself. We kind of have a single box. It really works that way and works very well.

But I do not want to leave here with the Chairman thinking that we are waiting for the last year and a half. I have, obviously, not gotten my point across. Let me try, in another 30 seconds and that is all, to try and do it.

It is like building a building where you see the entire foundation being laid and everything getting ready and the shell going up, and then suddenly in the last couple of months it goes and gets in. It could not have been done without all that prior work.

Mr. Chairman, I have got most people coming to me right now from within the Federal Government, within GAO and within outside firms saying, we do not think you can get it done this fast. Now, if you—and I certainly respect your opinions, and your staff—can show us any way it can physically be done faster, we would welcome that.

Now, let's go through the process. You could not have put in the consolidated financial accounting systems without completing the general ledger system format first.

Chairman GLENN. That takes 6½ years?

Mr. WRIGHT. It took 3 years. Two years were constructively spent, I have got to say. I would say one year our lead agency was the Department of Transportation, and while I think that they spent 2 good years, they had a slippage of about a year. My guess is

that we circumvented that from OMB much faster than any one of our other agencies could have.

Now, Treasury is very good, but Treasury does not have the agencies coming in, reporting to them, asking for budgets and us saying, what is happening on this project? It simply does not have the same clout in these areas.

Now, I would say beyond that, I am sure that we might have been able to pick up a few months one way or the other. We could have picked up a year, by the way.

Chairman GLENN. Let me bring it to the current if I might here. As far as sustained leadership for financial management improvement, people have told us that they look at the decline in staff positions on the management side of the agency of OMB and the turnover rates in key positions. They tell us that OMB has even refused at times to come up with its tiny contribution to the Joint Financial Management Improvement Program, and that more recently OMB has refused to lend staff to the general ledger project that you mentioned that is now underway.

How do you respond to those criticisms?

Mr. WRIGHT. I have never heard of that third one, Mr. Chairman.

Chairman GLENN. What about the first two, then?

Mr. WRIGHT. In terms of us not lending staff, I thought we were working pretty well there, so I cannot respond to that. I will be more than happy to respond to the second.

Chairman GLENN. Let's say you are contributing staff to that, then. Maybe that was wrong, I do not know.

How about the money for the contribution to the Joint Financial Management Improvement Program? You are the ones directing that. It does not do any good unless you fund it.

Mr. WRIGHT. That is right, and I think the JFMIP is doing a very good job on coordinating this activity right now and we are funding them right now. In the past years, when we were developing the general ledger system there was a real question as to whether or not we would fund them.

Without getting into personalities, Mr. Chairman, they had a little bit of a problem. The current Director of OMB has a different set of priorities towards management improvement than the prior director.

Chairman GLENN. Well, mainly the management improvement as we have seen it has been cutting back on those staff positions.

Mr. WRIGHT. Well, lets talk about that a little bit. When we came in, the management side of OMB was primarily focusing on reorganization. They had just completed a massive reorganization of the Department of Education and the Department of Energy. Most of that was done there.

We did it when we first came in so that the management side of OMB is not responsible for reorganization within the Federal Government. It is primarily for management reform. What you see is—yes, there is no question, you will see a reduction—but you will see a totally different focus in the entire Office of Management and Budget in these areas.

We are no longer moving boxes around, Mr. Chairman. What we are doing is basically working on those projects that I tried to lay

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out. Our first focus was on the cash management; the second one was on the credit management and financial accounting all the way through from the very start. Our people have been driving that, not GAO. It has not been the Treasury and all the rest of it. Our people have been driving those, but they have been doing different things than they were doing in 1980, and I think that is substantial.

Chairman GLENN. Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

Mr. WRIGHT. By the way, Mr. Chairman, can I add one more thing?

When you take a look at the funding for the management, you also have to include the Office of Federal Procurement Policy, which is management; you also have to include one very important thing, though, I forgot to mention in my overview, and that is, the people right now within what is called the Budget Review Division who are doing the upgrade on the budget, who are now working with the management people. Because we are going to be coming and proposing to the Congress about a $3.5- to $4-million budget system upgrade, which is badly needed.

That budget system is something like 30 years old. It must be made compatible to the financial accounting systems that are going in right now. If it is not, you are to have a disconnect between the two which will cause the problems that you are talking about. Now, we have proposed that. Those people are not included in the management, but they are an important part of the financial accounting system.

Jerry Riso is responsible for working with a fellow called Pete Maudlin within our shop to do exactly that. That cannot happen in any other agency.

Chairman GLENN. I would just say in response, it has been our sense here that there has been a real reluctance on the part of OMB to create even a Chief Financial Officer and that this has been something where you really drug your feet and it was not until we started talking about legislation that we really got serious at OMB about appointing someone over there. I do not know whether that was the case or not, but it sure took a long time.

Senator Roth?

Senator ROTH. Mr. Chairman, as you probably know, I have been a long-time critic of the OMB, long before this Administration took office. To be perfectly blunt about it, I think the problem in Washington is that nobody is really interested in management.

If I recall correctly, GAO started talking about financial management planning controls back in the 1950's, and here we are 30 years later. But the problem in Washington is not only the Executive Branch. The Congress is unable to set any kind of budget procedures of its own that makes any sense.

I do want to give you some credit, Joe, because I think you have in your stewardship tried to bring some modern methods into the picture.

Mr. WRIGHT. Thank you, sir.

Senator ROTH. I congratulate you for that. My real concern is that I do not see, short of legislation—and I am a strong supporter of legislation in this area, Mr. Chairman—any real progress being

made. My real concern is, even with a Chief Financial Officer established, as to how he is going to have the clout to get something done.

I was looking at some of the remarks of subsequent witnesses, and I am very much concerned about that. In my legislation last year, Mr. Wright, I had a proposal that if the agency did not respond within a certain period—I think we had two years, whether that is the right period, or something longer—that we would permit the Chief Financial Officer to take over so they could actually implement the operation.

How do we get some clout so that these things can really be done, because let's face it, the bureaucracy is going to fight it? I do not know who is going to be the next President, but frankly, we do not have TV here, we do not have dozens of reporters following this, so the first priority is not going to be management or operations or fiscal planning.

How do we get some punch into this, Mr. Wright?

Mr. WRIGHT. Okay. I think that is a good question, Senator. We have talked about this before and I am totally 100 percent in agreement with you. Improved management in the Federal Government is looked upon as a boring subject in the press and up in the Congress. There are a few, like both of you gentlemen, who think it is important. But other than that, you are in a great minority here.

As you know, we have strived together trying to get legislation passed on improved management. And by the way, there has been some success—the Debt Collection Act of 1982 and the Prompt Payment Act and all the rest of those. But other than that, we have had very little success.

For the most part, I have never seen an agency head—and I must say, I am not promoting this, please, this is not a career decision on my part—I have never seen an agency head brought up before an oversight Committee and have the management of their agency talked about.

Now, I am sure it has happened somewhere, but I have just never seen it in the 13 or 14 years I have spent in Washington. In terms of financial accounting systems within the agency. Maybe Senator, you are aware of it, but I do not know if this has ever occurred in an appropriation hearing that I have ever seen, or an oversight Committee hearing on any of the other Committees.

We go out and we have press briefings. We do not have too many press releases in this area because we have learned, you are not going to get much attention on improved management. We will have maybe little bylines in some of the Federal papers somewhere, but that is about it.

I think the way you do it is, first of all, there has to be an appreciation up here between the two of us—the Congress and the Executive Branch—that this is a major item. I totally agree with what the Chairman said—this cost money. And it cost lots of it.

Bad management, whether it be financial management or whatever, cost lots of money, and we have had a hard time being able to dimension this. After we get the budget and the financial accounting systems in place, Senator Glenn, hopefully you are not going to have something like that $600 million, and there are lots of them.

When Peter Graves first came to town and they asked us—Senator Roth, I think you can probably remember this—they asked us for an accounting of the capital by category and by location. We could not give it to them. And what is in place is that we spent a year sitting down there arguing with GAO over accrual accounting, when we did not have the accounting systems in place to be able to sit down there and put in an accrued accounting system.

So, I think the way you get it is, No. 1--and I asked for this, and I have been asking for this for some time—is get an appreciation somehow up in the Congress that this is important, because executive agencies do respond to their oversight Committees.

Second, is within the Office of Management and Budget—like I said when I lifted these two books up—the budget is a driving force within this town. All right. We have been trying—and we have got the management reviews in place—I think we have got the budget side's attention, Mr. Chairman, that this is important.

We are very fortunate in the fact that we have a Director of OMB who believes that improved management is a priority, but you may not in the future. We have had them in the past that have not. So therefore, we say go ahead and legislate this and tell us what you want in it. Go on ahead and bring us up in hearings like this and take us through it, because let me tell you, Mr. Chairman, this strengthens my hand and the Director's hand, and Mr. Riso's hand when we are working with these agencies.

Senator ROTH. Let me go back to my question if I can, Joe. Would it strengthen your hand if it were known that the Chief Financial Officer, wherever he may be—and I will go into that in a moment—could take over in a certain period of time if the agency did not respond?

Mr. WRIGHT. Okay. Senator, we do not need that, and let me tell you why. I can remember when you first mentioned that, and it scared me to death. Because that, at that time, was going to be within the Office of Management and Budget, and to have us actually managing financial accounting systems in the agencies, we would not want to do that.

What we can do very easily is this. We can simply transfer it to another agency, the management of the financial accounting system. In some cases—and I do not want to embarrass any of our agencies—we have told them already, you are not managing that, whether it be a personnel payroll system, and we have hassled them so badly that they are in the process of signing——

Senator ROTH. But could you do that to the Pentagon?

Mr. WRIGHT. Well, the Pentagon—that is a long trip across the river.

Senator ROTH. Let me be very blunt. I just do not think—I do not care how qualified you are in the current position—I agree with the Chairman that there is not the clout. We all know that the agencies are past master. They figure Joe Wright is going to be out of office in a couple of years and somebody else will come in for a few years and move on.

This is something that does not have the sustained interest of the Congress, as you say, with the exception of a few people like the distinguished Chairman and myself. I think that there has got

to be some statutory basis. I think there has to be some statutory requirements and some statutory clout.

Frankly, as I said, I am a strong believer that we ought to give the capability of taking over, because I think if you do not have something like that we are going to be talking about this 5 years from now. Very frankly, if we do not see some progress in the next few years I think, Mr. Chairman, that the time may come that we ought to consolidate such functions into a new agency or a new department.

That would be a radical step and I know it, but the fact is that financial management is out of control. We are working in the dark and time is not on our side with the deficit problems. Again, I respect and appreciate what you are trying to do, Joe, but this is a monumental problem that is not going to end at the end of next year, and I think we need to be putting things in place that hopefully will provide some real statutory basis for action.

Mr. WRIGHT. Senator, can I mention one kind of self-serving thing? I apologize. I should not use this hearing for this, Mr. Chairman, but I would like to talk about the OMB budget for one second.

The reason I do is because we have legislative requirements, for example, just producing the budget. And then when Gramm-Rudman came in, remember, that hit us again. And the Paperwork Reduction Act and everything else. Just volumes. You cannot imagine. The timber industry would collapse if OMB closed down, from the paperwork that we have been going through.

In our 1988 request, we requested $41 million. If you go back adjusted for inflation, back to 1981 when we came in, that was $44 million. We have a really tough time up here getting our budget request through.

Chairman GLENN. What happens if we sequester under Gramm-Rudman?

Mr. WRIGHT. Well, we will have to do the sequester report. It will take more time and more paper.

All I am saying right there is, I would have absolutely no problem. We have an earmark, you know, for the Office of Federal Procurement Policy, which is under the oversight of this Committee. In management when we have our budgets going down in real terms every year for 7 years, this gets tougher and tougher and tougher decisions. We have not had the funding from the Congress.

Enough said on that.

Chairman GLENN. Was your budget request each year higher and we cut it back?

Mr. WRIGHT. Yes, sir.

Chairman GLENN. Or were you cutting your own budget when you submitted it?

Mr. WRIGHT. No. We went on ahead and we requested higher budgets every year, with the exception of one year which I remember. Dave Stockman about 4 years ago decided in that one year not to go with it, but we have requested higher budgets every year.

Chairman GLENN. As Senator Roth pointed out, we have, basically, three options. We could put this in OMB, we could put it in Treasury, or we could form a whole new group like the comptroller in a normal corporation we keep referring to from time to time

that normally sits off here with—he is sort of a super-big stick out here—sits off to one side, as far as the wiring diagram for the corporation goes, and is the big stick reporting to the CEO, and he carries a lot of weight.

We do not see that same thing happening in Government. And even with the belated appointment of Mr. Riso, who has a tremendous reputation and we hope he can bring some of this about, but everybody in the audience here even tittered awhile ago when Senator Roth said something about would this apply to the Pentagon; ha, ha, big joke, nobody ca . get the Pentagon.

Yet, that is one-third of our budget. That is going to be $300 billion this year in the defense authorization that we are going to have out on the floor before too long, I hope. It has been delayed, but I hope we can overcome that so that we have an authorization bill this year, at least. At any rate, we will have an appropriations bill out on it.

We are talking about a third of the whole Federal budget, yet we laugh about getting the Pentagon under control. You did not, particularly, but it is just taken as sort of a joke that we cannot control that over there. And yet, financial management, run from the President with the President's strong support could do that. That is the job of the President.

Quite apart from the strong Presidential leadership you referred to before, I just do not flat think it has been there. Not just this President. Ones before also. I am not being partisan in this thing. I will be just as critical of Carter and Lyndon Johnson and everybody else for not putting strong financial management in. It is true, you could not run a company that way, and yet we try and run the Federal Government and waste taxpayer money all over the lot and we will not put in financial management.

Mr. WRIGHT. Okay. Well, first of all, let me again, please, with all respect, strongly disagree when you say we are not putting them in. This is one of the reasons why I wanted to put the project schedule in the record, and I invite anybody who thinks we can do it any faster, to come up with suggestions to us, because we are certainly interested in it.

Secondly. I have got to say, with the Pentagon, the reason you probably did not see me laughing is you are looking at a veteran of wars, you know, in this area over here of about 5½ years. But we did use the Pentagon's general ledger system as the basis for what is going in Government-wide right now and in this particular area, they were not only cooperative, but they were one of the leading agencies, with the Department of Transportation, in making sure that that got in place, so I have got to give them some credit in that area.

Chairman GLENN. Well, our missing $600 million that was referred earlier here, not being able to reconcile accounts on foreign military sales does not generate a whole lot of confidence that their system is perfect over there either. Maybe we need a financial officer that can tell them how to improve their system, too.

Mr. WRIGHT. You are not going to get a good accounting until we get this entire project in place. I have also got to say right now, I think I saw somewhere where it said that what we ought to do is we ought to stop and hold for awhile.

Mr. Chairman, I really do not think you want us to do that. Like I said, we spent too much time. We have got the RFPs that are in the final process of going out right now, very fast turnaround. I have got to say with what Senator Roth said, that perhaps at some time in the future it might be very, very appropriate to have this function with, I do not necessarily think a separate agency, but in the Department of Treasury.

But right now, Mr. Chairman, again, the main point I wanted to get across is we are in the final stages of our implementation schedule, and I think the only place that this can get done and be, by the way coordinated within the budget upgrade, has got to be the Office of Management and Budget. And the point I wanted to get across for you is it is happening.

In the future we would be more than happy to work with this Committee as to what some kind of future structure may be. But right now we just want to get the job done.

Chairman GLENN. Well, okay. We want to end this here and get on with the panel rapidly, but I do note that the OMB Director Jim Miller just arrived here, if he can join us at the table here. He said he might stop by for a few minutes here.

We have been through a long series of questions here. I will not try to repeat everything that has been said here, or even summarize it. It has been quite lengthy, and I am sure we can send you over a copy of the testimony here.

Mr. Wright's part of it you will enjoy. I am not sure you will enjoy some of the rest of it. You are aware of the legislation that we have before us.

We appreciate you coming by this morning, we truly do, and we would appreciate any comments you wish to make.

Mr. MILLER. Thank you, Mr. Chairman and Senator Roth.

I appreciate a chance to just come and reiterate how important it is in our judgment that we go forward on these financial reforms. We announced yesterday that we are really going to take off after the deadbeats that are not "fessing up" to the Federal Government and paying what is owed.

We have in place developed some financial management reforms, credit management reforms. We would very much like to get Congress' support for some of the things that require statutory change. We have made an enormous amount of progress, I think, as Joe Wright's testimony gives adequate evidence to.

We want to establish the Chief Financial Officer. We like the idea that your staff has worked on, that Senator Roth's staff has worked on, that both of you and I have talked about on several occasions. We like the idea.

We think that in terms of maximizing the progress that has been made, maximizing the likelihood that certain objectives can be accomplished in the last year and half that we have in this Administration, that if we move forward with the setup that we have got now, rather than moving toward a new scheme that has been proposed, we are much more likely to have substantial results.

I do not think that there is any question in my mind, and your minds I know, because I have talked to you about it, that we can do a lot better in the Federal Government in terms of managing things appropriately than we have in the past. I mean, we have a

fourth of the gross national product, practically. And the standards that we have for financial management are not up to snuff with the private sector, and we have got to improve that.

Our accounting systems are somewhat behind the times. We have had some discussions with Joe DiGuardia and others about how you go about measuring assets, how you measure wealth, how you go about accrual accounting, how you go about talking about depreciation in the Federal sector?

They are not easy answers. How do you go about measuring depreciation, for example, in weapons systems? They are not easy answers but they are things that conceptually we ought to try, that we ought to look toward, things that I think will give us a better handle on what the budget is all about and budgeting in the main.

Now, let me also stress, however, that we need some help. We need the credit reform package to be passed by Congress. We need in instances where agencies are essentially somewhat captive of Committees up here and the kinds of things that you both want to happen, the Committees are restraining the agencies from doing. We need to have that kind of support.

We need, frankly, support of OMB and some of the efforts that we have tried to make on the management side, and I think your Committee can be instrumental in doing that.

But I am very happy to announce today, as Joe has probably already indicated, that I have asked Jerry Riso, who is on my far left, to be the Chief Financial Officer for the Federal Government. He is a person with great experience. We have worked together now at OMB for several months and I am very impressed with his determination and his skill in getting things done. He is a kind of a "can do" person.

We have had a lot of improvements. We have got more. We are right at the opportunity to make substantial further improvements, but there is a lot to do. We look forward to working with this Committee to make sure that those are all accomplished in the months and the years ahead.

Thank you.

Chairman GLENN. Thank you, Mr. Miller. We have worked together on the credit reform package.

I will not try and give a summary of everything that has gone before today. We can send the testimony over to you, or your people can brief you on what has gone before.

I think more than just a credit reform package and some on, though, we are concerned about the whole way we are organized for financial management throughout the whole Government.

Mr. MILLER. Yes, you are right.

Chairman GLENN. The Pentagon, $300 and something billion a year, et cetera, right across the whole range of Government. This is not a Reagan bashing. I have been concerned about this back in Carter years and back—I came into the Government back here in the Ford years, and so it has been one Administration after another.

We are trying to set something up so we will not find a CFO being appointed 6½ years into an Administration trying to do something about this that we have been howling about for many, many years. I would like to see something set up that puts this into

form so that somebody has to fill that position and they are charged with the responsibility of doing something about it.

Mr. MILLER. Absolutely. Could I just mention on the Defense side, I talked to somebody one evening and found out that the Defense Department was not paying many of its bills with electronics funds transfer. It was, instead, paying bills with ordinary paper checks. And people said that some of these larger companies were having people stand by, grab the check, get on airplanes, go deposit the checks, try to keep the bank open.

I mean, obviously, a lot of waste that the taxpayer eventually pays because it is built into the price of the bid that they give the Defense Department. This is something that we are cleaning up. That is just an anecdote. It is not that significant in the whole scheme of things in terms of the cost, but it is something we can do something about.

Chairman GLENN. Let me ask one thing. We are concerned also about one other thing, and that is your new CFO, Mr. Riso, the fine reputation that he has and all. If he calls up Cap Weinberger and says, hey, we got a problem and here is what we have got to do about it.

Is Weinberger going to say, "Jerry Riso? Where is he at? He is over in OMB. What level is he? He is third of fourth down the line. Well, I just gave that to a 14th Under Secretary down in someplace, I can tell you that."

Mr. MILLER. Mr. Chairman, he is going to say, "Jerry Riso! My gosh. Get him on the phone. I will be right there." [Laughter.]

Chairman GLENN. Do you want me to go out and try that right now on the telephone? [Laughter.]

Mr. MILLER. No, Mr. Chairman. I suspect that if you just give us a couple of weeks and Jerry Riso is going to be on the tip of every tongue over there.

Chairman GLENN. I hope he is the hottest thing in Government. You are going to replace North and Poindexter and everybody else on the public's mind, I can tell that. And I hope in a different way, also.

You indicated you wanted to say something, Jerry. Go ahead.

Mr. RISO. Yes, sir. I have sat through the last hour, and I thought I had died at one point.

Let me give you a perspective in terms of what is happening, without repeating Joe excessively, and give you a sense and a degree of assurance on the question of progress that is being made and how we correct our performance if it falls short of where we want to come out.

In my early conversations with the Director and the Deputy Director about coming into OMB, I had the advantage of seeing the management report in its draft form. The report laid out a number of implementation targets. My major concern was, are they doable within the period of time when measured against January of 1989.

Based upon my experience prior to the Government, my experience sitting as the Vice Chair of the PCMI and then spending 2 years in Interior doing within Interior the kind of systems upgrade and consolidation we are talking about, I persuaded myself that it was doable, subject to a number of circumstances which I will share with you.

One, irrespective of whether we, Treasury, or GAO intends financial management improvement, improvement will not take place unless the agencies are committed to and see a direct benefit in program management coming from these systems upgrades. These systems, and let me concede that they are bad, serve some purposes in some agencies. Changing their culture is different.

I made it clear that if I determined we needed additional resources I would come forward. To date, I have not been disappointed. Secondly, that I would leverage resources within the agencies, because unless we get agency participation in systems upgrade it will not happen.

Over the last 4 months we have met with each of the Agencies and are in the process of detailed reviews of the adequacy of their plans. I report to the Director and the Deputy on a quarterly basis on which departments are doing well and which departments are not doing well. It is our expectation that report will go forward to the full Cabinet and to the President.

I am not in the least bit shy about calling to anybody's attention the failure of any department to meet the plans and the objectives they have set forward. The plans and objectives do exist. They are being monitored on a quarterly basis. I made a commitment to all the financial people across the Government that at any point where there is a gap between what they think they need in terms of budget and staff, and the resources they have, they will let me know directly.

I have not received that call yet from anybody.

Chairman GLENN. All right, thank you.

Mr. MILLER. Mr. Chairman?

Chairman GLENN. Yes. If we could, keep it brief because we do have a whole panel yet.

Go ahead, Mr. Miller.

Mr. MILLER. Could I just follow up on that. You know, it is fine to enumerate goals and objectives, but unless you have some way of measuring the progress, you do not get behavioral change quite as much as you get when you have a scorecard.

One of the first things Jerry and Joe and I sat down and talked about is, let us measure what it is. We also talked with the agencies about what kind of measures made sense, so have them all on board understanding how we are going to measure the thing and their commitment that these are appropriate measures.

Having done that, we now can compare the progress they have made with those goals. And we have these score sheets and those score sheets are going to go to the President of the United States and they are going to show that in terms of the management reforms that are in this package of his, the President's Management Report to Congress, coming out of the Cabinet meeting we had with the President where the President went down these goals, told the agencies, I want you to accomplish these things. I am going to say, Mr. President, this agency has done well on this credit management, this one has done well on financial management, this agency has not done well at all on this item or that item.

That is going to, I think, have a redeeming effect on the behavior of the agencies. As Jerry said, we are not reluctant at all to accentuate both the negative and the positive, the carrot and the stick.

Mr. Chairman, if I might leave, I——

Chairman GLENN. Yes. We certainly appreciate you coming by, and we do have to move on.

Before you leave, though, Director Miller, let me ask one thing. Mr. Riso, have you met the President?

Mr. RISO. Yes, sir.

Chairman GLENN. Have you met him on this subject, that you are now going to be the new CFO for the Government?

Mr. RISO. Not on this subject. We met on the entire question of measuring the progress of agencies against the goals of the management improvement program. At that time we did agree that we would do this quarterly. That is scheduled to take place early next month.

Chairman GLENN. Are you going to announce the appointment today or is the President going to announce that?

Mr. MILLER. I am going to announce it.

Chairman GLENN. Would not it be a good idea to have the President announce this?

Mr. MILLER. The President has the AIDS Commission to announce today.

Chairman GLENN. Well, I would not want to bog him down with too many announcements in one day. [Laughter.]

But would not we be well advised, if we are going to get the attention of all the different Secretaries, to have the President announce this important position that we are putting out today?

Mr. MILLER. I may follow-up on that suggestion.

Chairman GLENN. It might not be a bad idea. I am just trying to give him a little prestige from the third level down in OMB to getting the attention of the Secretaries, is the point.

Senator Roth, and then we will have to get on with the next panel.

Senator ROTH. It is always a pleasure to see Jim Miller. Let me say that my concern is that we put into law a statutory basis, a kind of structure that will ensure that we continue to move ahead. I think some progress is being made now, but what concerns me is that we are at the end of this Administration and I think it is important that come January 18 months away that we have some kind of a statutory basis that will ensure that we move ahead.

I would hope that the Administration would work with us to bring that about.

Mr. MILLER. Senator Roth, as you know we worked towards some management improvements last year. I have a commitment to you that we will continue to working on that. I commit to you, Mr. Chairman, and Senator Heinz as well, that let's sit down and talk about these things.

I guess our major focus right now is, let's not let up. Let's not have the possibility for institutional reform as an excuse for the agencies to slack off on some of the things that we are trying to bang on them about doing right right now.

Chairman GLENN. Jim, I am complementary to what you are doing. We do not know that we will get this through. We think this is a better answer, obviously, or we would not be proposing it. I do not know that we will get the thing through, and if we do not, you

are our thin red line on this. So what you are doing is very important to us here. I am not denigrating it at all.

Mr. MILLER. Right.

Chairman GLENN. We want to work with you.

Mr. MILLER. On the specific legislative proposal, I think we ought to sit down and work on it. But we would like to get the results on the hearings, what has been proposed here, before we do.

Chairman GLENN. Senator Heinz.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. Mr. Chairman, I just wanted to come back and apologize for not having been here earlier. We have Paul Volcker up in the Banking Committee singing his swan song for our Committee. He has been a marvelous public servant.

I will try and stay here as long as I can, but I am going to go back up there for one last round.

Chairman GLENN. Thank you very much. We appreciate you coming by.

Thank you very much. Your interest in this same area has been long and your work on this Committee in this direction has been great and we appreciate you coming by here this morning.

Senator HEINZ. I would just ask unanimous consent that my prepared statement be a part of the record.

Chairman GLENN. It will be included.

[Senator Heinz' prepared statement follows:]

PREPARED STATEMENT OF SENATOR HEINZ

Mr. Chairman, thank you for this opportunity to review improvements in the financial management of Government. A $1 trillion Federal budget carries with it a staggering management burden, and I welcome the committee's effort to centralize and improve the way Government manages its money.

Let me simply say, however, that I am wary of legislation that creates new offices and requires more paper to move from one desk to another. Something should be done in the area of Federal financial management, but I want to caution my colleagues against the temptation to seek a "quick fix". Long-range planning and leadership are not easy to legislate. We must be certain that there is the will to implement the management responsibilities which this committee may require.

I want to particularly welcome the comptroller-general, Charles Bowsher. His advice on the management of Federal funds is needed and I look forward to reviewing his testimony.

Thank you, Mr. Chairman, for the outstanding panel of witnesses present this morning.

Chairman GLENN. Thank you gentlemen. Thank you very much.

Mr. MILLER. Thank you.

Chairman GLENN. Our panel will now resume, and I am sorry we had the truncated operation here this morning, but I am sure you understood.

Mr. Uyeda has given his testimony. Mr. Haller will be next. Then Mr. Burris, Mr. Donlon and Mr. Kusserow, in that order.

Gentlemen, I appreciate your cooperation here this morning. This is rather a truncated hearing this morning. They usually go a little more according to order than this, but I let things get out of control this morning.

Mr. BURRIS. I'm glad we heard that, Mr. Chairman.

Chairman GLENN. Well, I am sure that was interesting to all of you, too, so maybe it was not wasted time.

Mr. BURRIS. It was not wasted at all.

Chairman GLENN. We appreciate that.

Mr. Haller, who is with Price Waterhouse, we welcome your testimony.

CONTINUED TESTIMONY OF SUSUMU UYEDA, RESEARCH DIRECTOR, PRIVATE SECTOR COUNCIL;[1] ED HALLER, PRICE WATERHOUSE;[2] ROLAND BURRIS, COMPTROLLER OF THE STATE OF ILLINOIS;[3] JOE DONLON, ASSOCIATION OF GOVERNMENT ACCOUNTANTS;[4] AND RICHARD KUSSEROW, INSPECTOR GENERAL, DEPARTMENT OF HEALTH AND HUMAN SERVICES[5]

Mr. HALLER. Thank you, Mr. Chairman.

I am a partner in the Office of Government Services of the firm of Price Waterhouse, and my firm's lead specialist on Federal financial management issues. I appreciate this opportunity to appear on behalf of Price Waterhouse to comment on the proposed Federal Financial Management Reform Act of 1987.

Improvement of Federal Government financial management is an issue of utmost concern, and we commend you for making it a high priority of the Governmental Affairs Committee. Price Waterhouse has long supported the establishment of a Chief Financial Officer for the Federal Government to fill what we have recognized as a leadership void in Federal Government financial management.

Leadership is clearly the most important issue confronting those of us working for financial management reform, and your proposal for an Under Secretary of the Treasury for Financial Management and a study of the proper organizational placement of the leadership function indicates that you share those views. We feel your proposal is unquestionably a step in the right direction in establishing that required leadership.

As the legislation is currently drafted, however, the responsibilities of the Under Secretary for Financial Management appear to be limited largely to the development of integrated Government-wide financial management systems, and I emphasize the word systems. We believe that effective financial management leadership calls for a much broader definition of financial management, and thus a significantly expanded scope of responsibilities for the CFO.

We would define financial management as encompassing not only financial systems, but also financial policies, financial procedures, financial planning, financial controls, and last but certainly not least, financial reporting.

Accordingly, the scope of responsibilities of the CFO should include the following: Acting as principal advisor to the President and the Congress on financial management policies, procedures and methods, including approaches to utilize financial information to more effectively manage the activities and operation of the Government; providing policy and procedural guidance, central direction, and monitoring of executive agencies and departments in the

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[1] See p. 79 for Mr. Uyeda's prepared statement.
[2] See p. 88 for Mr. Haller's prepared statement.
[3] See p. 95 for Mr. Burris' prepared statement.
[4] See p. 104 for Mr. Donlon's prepared statement.
[5] See p. 130 for Mr. Kusserow's prepared statement.

management and control of financial activities and operations and related financial reporting; third, fostering the development of long-range strategic financial planning, which encompasses such areas as systems enhancements, staffing requirements, technological improvements, required legislative actions, financial management objectives, information requirements and budget priorities; coordinating and monitoring the development of executive agency accounting and financial management systems for the purpose of establishing compatibility among such systems and ensuring compliance with accounting principles and systems and control standards established by the General Accounting Office, the Office of Management and Budget, and certainly, the Office of the Chief Financial Officer; keeping the President and Congress fully informed regarding the Federal Government's financial position and results of operations, financial management condition, and financial management resource requirements, both on a short and long term basis; supervising the maintenance of the central accounting and reporting records of the Federal Government; and lastly, establishing Government-wide qualification standards and training programs to ensure that executive agency financial management positions are filled by appropriately skilled and committed individuals.

In a word, the CFO will be the leader of the Federal Government's financial management program, the individual principally responsible for the accountability and safeguarding of Government resources.

With that responsibility should go the authority to do whatever is necessary to get the job done, be it strategic planning, promulgating policies and procedures, personnel recruitment, and last but not least, acting as a thorn in the side of those who might drag their feet on needed improvements.

The remainder of my testimony focuses on the subject of the authority of the CFO, and is divided into two parts. The first deals with our specific concerns about the authority of the proposed Under Secretary of Financial Management. The second deals with the structure and content of the study called for in section 8 of the draft legislation.

As was pointed out a little earlier, in hearings last year on Senator Roth's omnibus financial management improvement bill, S. 2230, both Senators Eagleton and Roth raised serious questions on how the CFO proposed in that legislation could be given the clout or authority to ensure that financial management reforms were actually implemented by departments and agencies, rather than simply given lip service.

That question is equally appropriate with respect to this legislation. Does the proposed Secretary have enough authority to carry out designated responsibilities? Incidentally, it is the issue of clout, among several others, that had led us consistently in the past to the preference for the creation of the independent financial agency which Senator Roth spoke of earlier.

There are several approaches in your proposal which we support to establish the clout I referred to: For examples the annual reporting to Congress on the progress in implementing systems development plans, the discipline of audited financial statements, and the required certification that agency budget requests are based on in-

formation produced by systems that are in compliance with GAO standards.

In our opinion, these are not enough. Let me comment on some of our concerns.

First, there is no tenure of office stipulated for the Under Secretary. We can only assume that will result in a political appointment serving at the pleasure of the President. Although the scope of responsibility cited in the legislation is more limited than we would prefer in the long run, it still constitutes, as has been discussed this morning, a complex, long-term assignment. It cannot be accomplished without continuity of leadership.

We have suggested that the Federal Government's Chief Financial Officer be appointed for at least an 8 or 10 year term. Ideally, we believe the term should be 15 years, commensurate with that of the Government's chief auditor, the Comptroller General. Certainly the nature and complexity of the responsibilities involved in those two positions are similar, as is the need for independence from the political process.

Secondly, and equally disconcerting, there is no linkage of authority between the Under Secretary and the agency CFOs except through the Financial Management Improvement Council. Considering this tenuous relationship, it is difficult to see how there can be any consistency among agency financial management improvements or compliance with Government-wide objectives. The Under Secretary must have authority over agency CFOs, preferably a voice in their selection, appointment, evaluation and if necessary in the long term, their removal.

We also feel it would be beneficial to create a line item budget for financial management for each agency which would be subject to the review and approval of the Under Secretary proposed in your legislation. While OMB would negotiate with the Under Secretary for Government-wide resources, agency allocations would be negotiated strictly between the Under Secretary and each agency head. Otherwise, we see an endless struggle for sufficiency of funds for financial management purposes and perpetuation of the petty bickering over financial management priorities that we now experience.

We have several other specific concerns. First, there is no appointment process or term of office specified for the agency CFOs. Simply designating a CFO at each agency, especially if there is no provision for strong central guidance and support, would simply institutionalize the undesirable status quo—that is, glaring inconsistencies among agencies as to the status and support accorded to lead financial management personnel.

Secondly, we note that the mandate for agency CFOs is much broader than that for the Under Secretary. This, plus the lack of central authority and their being accorded the title of CFO rather than agency controller, would seem to suggest to some a bias in favor of decentralized financial management leadership. We would certainly have some major reservations about this legislation if that is the case.

If the Under Secretary is meant to be the financial management leader, the position's responsibility should parallel and be integrated with those of the agency controllers. Ideally, the CFO's position

description should encompass all the responsibilities I described earlier in my statement.

Lastly, there should be a CFO in every executive agency and department, not just the 22 listed in the bill. Financial management needs are not determined by dollar size alone.

Let me now turn for a brief moment to a discussion of the study to assess the future organizational placement of Government-wide financial management leadership which is authorized and specified in section 8 of the legislation.

I am sure we all have mixed feelings about Government studies. They are frequently alleged to have little impact and are often viewed as a convenient way to bury an otherwise sensitive issue. In this case, however, I believe the recommended study can contribute significantly to the process of instilling financial management leadership in the Federal Government.

This study is so important that I urge that more attention be given in the legislation to defining the structure of the study panel and the agenda of issues to be considered. I recommend that the panel be chaired and staffed by acknowledged financial management leaders from both the public and private sectors and that appointments to the panel be jointly shared by Congress and the President.

The panel should encompass, among others, Members of Congress, the Comptroller General, representatives of the Treasury Department and OMB, a ranking academician in governmental financial management, a corporate CFO, a representative from a private sector financial management group, such as the Financial Executives Institute, a representative from a public sector financial management organization such as the Governmental Finance Officers Association, as well as representatives of the renowned Financial Accounting Standards Board and Government Accounting Standards Board.

As to the study agenda, I strongly urge that it go beyond the issue of organizational placement to include the scope of responsibilities of the CFO and the difficult question of how to give the CFO clout to get the job done.

I would recommend the study panel's mandate be expanded to address points I emphasized previously, including tenure and compensation; authority over department and agency controllers; control over allocation of financial management resources in the budget; the agency controller appointment process; the compatibility of CFO and agency controllership responsibilities; and the need for a controller in each executive agency.

Thank you, Mr. Chairman, for the privilege of presenting our views on this exceedingly important and very, very timely issue.

Chairman GLENN. Thank you, Mr. Haller. Those are very good and thoughtful comments on this and things we will want to look into in more detail. I thank you very much for that.

Next, Mr. Burris.

Mr. Burris, you are an elected official—in Illinois the Comptroller is an elected official—right?

Mr. BURRIS. That is correct, Mr. Chairman.

Chairman GLENN. So you bring a unique perspective to this. You have to stand for election. You are sort of where the rubber meets

the road in a number of different directions on this. You have to consider politics, you have to consider efficiencies, you have to consider everything that goes into being a chief financial officer, in effect.

Mr. BURRIS. That is correct.

Chairman GLENN. So you bring a rather unique perspective to it this morning.

We welcome you here and look forward to your comments.

Mr. BURRIS. Thank you very much, Mr. Chairman.

Also, I have been serving now in my third term, and my previous 8 years have been with the Governor of the opposite party of which I serve, so it has been very interesting. We have been able to move forward somewhat in financial accountability and financial reporting.

I am very pleased to have the opportunity to appear before you, Mr. Chairman, on behalf of the National Association of State Auditors, Comptrollers and Treasurers, of which I am the immediate past President.

Many of us in the financial community have worked for years to call attention to the need for improved financial management at the Federal level. With all of the crucial and newsworthy issues before Congress, this may not be the most riveting of topics, but it certainly is an important one.

I want to congratulate you for your foresightedness in conducting this hearing and for introducing the Federal Financial Management Reform Act of 1987. The bill, Mr. Chairman, is a solid—and I repeat—a solid first step in improving Federal financial management. It is a first step.

You bill recognizes the void in the financial management leadership at the Federal level and calls for the creation of a central figure, the Under Secretary for Financial Management within the U.S. Treasury. Further, your bill takes the essential step of requiring that the Federal Government plans its work and works its plan, by requiring the Under Secretary for Financial Management to develop a plan for an integrated financial management system.

I am encouraged to see that you require that the Under Secretary plan to ensure that all executive agency systems produce consistent, compatible and useful financial data and to integrate agencies' financial systems. I applaud these initial steps, for without them other efforts would be in vain.

I also appreciate that you recognize the need to develop a methodology to define Federal agencies' assets and liabilities. You also acknowledge the desirability of requiring agency financial statements and financial audits based on this methodology.

There is another portion of your bill that I think worth singling out, because it addresses an issue that is too often overlooked. This is the portion directing agencies' chief financial officers to recruit, select and train agency financial management personnel. This kind of central control and emphasis within the agencies will help assure that the Federal Government is able to place qualified people in positions dealing with financial management.

I would like to ad lib in here, Mr. Chairman, that I agree with Mr. Haller that those chief financial officers in those agencies

should be independent, and therefore we are concerned about their clout within the agency itself.

In tackling the formidable problem of financial management, there are a number of areas where I would hope to see additional steps taken in the future. For instance, I support the creation of an agency chief financial officer and I would like to see this fitting title extended to the Under Secretary for Financial Management.

In other words, we are calling him Under Secretary for Financial Management, and it really should be the Chief Financial Officer of the Federal Government, and that title we would hope would be extended, which would also carry with it a great deal of clout, rather than the Under Secretary.

This would help establish a clear link between a central figure for all Federal financial management and the agency CFOs. It is important to establish this link to help endow the Under Secretary or the CFO, as I would call the position, with some clout.

Mr. Chairman, I heard Senator Roth and you make in your comments to the members from OMB and I was sitting back there being a cheering squad because it was just music for my ears to hear what you were saying. It is time that we move on this issue and time that we try to establish——

Chairman GLENN. We are going to call you back for more hearings. [Laughter.]

Mr. BURRIS. There is another question closely related to clout that I would like to raise, and this is the question of placement. I have long supported an independent CFO and for years many of us in the financial community have struggled with the question of placement.

I realize that on one hand the chief financial officer of the Government might be able to function best if the position were part of the President's team and part of the inner circle of power. On the other hand, being a part of the team would limit the position's independence and ability to call shots as they are seen, so to speak. Almost by definition, if you are part of the team, you are not independent.

Now, this is a crucial question. It is also a difficult question. Personally, I have always thought the position should be modeled after the Comptroller General with the independence and the benefit package that goes along with it. In other words, that person should be—as the Comptroller General reports to the Congress—this person should really report to the Chief Executive of the United States of America, the President, and with a term.

However, I realize this crucial question must be resolved in a way that has the support of the financial and political community in Washington. In other words, Mr. Chairman, I am a politician and you have got to get things done. Wishing and hoping mean that you might not get them passed.

I will do whatever I can to facilitate the work of a study group on this issue, as is called for in your bill. If a study is conducted, I would urge that it also review options for giving the CFO or the future Under Secretary a term. A term would hope protect the position from the possibility of the syndrome of shoot the messenger if bad messages about the financial condition of the Federal Government had to be delivered.

Finally, there are a number of functions I would also hope the Under Secretary or the Federal CFO would assume at some point in the future. I have discussed these in my written testimony that was submitted for the record.

In conclusion, Mr. Chairman, I want to confirm my support and NASACT's support for your bill as a solid first step toward improving financial management at the Federal level. I appreciate the opportunity to appear before you and want to commend you and members of your Committee for the movement to improve Government financial operations.

I am delighted, Mr. Chairman. Thank you very much.

Chairman GLENN. Thank you very much, Mr. Burris.

Mr. Donlon, representing the Association of Government Accountants.

Mr. Donlon, we welcome you.

Mr. DONLON. Thank you, sir.

Mr. Chairman, the Association of Government Accountants appreciates the opportunity to appear before you today on the proposed bill entitled Federal Financial Management Reform Act of 1987. I am appearing before you as a long-time member of the Association of Government Accountants, a professional organization of approximately 12,000 individuals engaged in Governmental accounting, auditing, budgeting and information systems.

We are proud to include among our membership a good number of the senior financial managers, inspectors general, and auditors in the Federal Government, as well as many State and local Government leaders.

I have served in the financial policy and systems area of GAO and have extensive experience with the financial management and reporting practices of the Federal Government. However, I am appearing here today in my capacity as a member of AGA.

My membership in AGA has given me numerous opportunities to serve the Government financial management community in positions ranging from AGA's Washington chapter President and National Education Board Chairman to membership on a task force created in November 1983 to examine financial management in the Federal Government. The work of this task force is closely related to the proposed Federal Financial Management Reform Act of 1987 and it is the results of this task force study that we in the Association of Government Accountants would like to discuss.

First, the Association would like to express its support for the general intent and direction of the proposed bill. We believe it is a big step in the right direction and are pleased to see many of the features supported by AGA over the past few years included in the proposed legislation.

However, we in AGA believe that the establishment of a stronger financial management function in the Federal Government should go a bit further than the proposed bill in the areas of the tenure of the Under Secretary for Financial Management and agency Chief Financial Officer, or as we call it in our proposed bill, controller positions; specific qualifications for appointment; dual reporting relationships; and a formal career path.

With your permission, I would like to provide the Committee with some background and discuss these additional features which are included in the AGA task force report, published in 1985.

In November 1983 AGA appointed a task force to examine ways to improve financial management in the Federal Government. This initiative has been an example to many others in the last 3½ years.

The mission of the task force was to examine the existing financial management procedures and practices of the Federal Government in order to determine ways in which Federal resources could be better used to meet the challenge of planning, accounting for and reporting on the financial activities of the Federal Government.

Our research led to the recommendation in 1985 of a Federal Controllership Act, mandating that the Executive Branch establish an Office of the Controller with Government-wide responsibilities for integrating all financial management policies, procedures and practices. These recommendations were reached after examining 50 years of Presidential and Congressional commissions, executive orders, Government-wide circulars, and the scores of laws and regulations that were not heeded or enforced.

It is interesting to note that over the years many public and private commissions investigating Federal Government accounting practices have reported that the financial reporting systems of the United States are inadequate, unreliable and untimely. In many instances, past improvement efforts merely added new requirements to old with little or no concern for the interrelationships of any organizational and procedural management issues.

In almost all cases, all of these initiatives lacked the financial resources and the critical personnel commitment to truly make something happen. As was also apparent, most recently to the Grace Commission, no one agency or person is clearly responsible for developing and coordinating financial management policy and for providing continual central leadership in the Federal Government.

It was the overall conclusion of the study group that the improvements in Federal financial management would only come when responsibility for this important function was fixed, both Government-wide and in each agency and department. It is apparent that the drafters of the proposed Federal Financial Management Reform Act of 1987 reached the same conclusion.

All of the papers thrown at the problem—laws, studies, reports, circulars and on and on—failed to address the basic issue. The basic issue is the status, authority, tenure and resources given to the personnel who must perform the financial management function day in and day out. There has to be someone to blame when things go wrong or just simply do not happen.

Several factors that we included in our submitted testimony led AGA to conclude that legislation would be the most effective way to bring about needed improvements. Therefore, a task force report was prepared with proposed legislation that included many of the measures mentioned in your current Senate bill.

The Association's study of Federal controllership recommended that: First, the Executive Branch should establish the position of Controller of the United States with Government-wide responsibil-

ities for assuring that the many departments, agencies and offices of the Federal Government uniformly and consistently perform the financial management function.

Second, the Controller should be appointed without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, budget execution, financial analysis, auditing, systems development, public administration, or management analysis.

Third, the Controller should be appointed for a period of 8 years and be removed from office for the same reasons as the Controller General of the United States.

Fourth, the functional responsibilities of the Controller should include coordinating and monitoring the development of an executive agency accounting, reporting and financial management systems to establish parity among such systems and to ensure consistency in applying principles, standards, procedures and practices Government-wide.

Fifth, each department, agency and office of the Federal Government should establish an Assistant Secretary-Controller or Controller position with financial management duties, responsibilities and authorities uniformly defined and fixed for each of these Federal organizations.

The qualifications for appointment to these positions should be the same as those for Controller of the United States and the term of appointment 4 years. Incumbents may be removed from office prior to expiration of such term only for disability or serious offense.

The Controller should also be responsible for reporting to the Controller of the United States, the head of their agency and the Congress, a dual reporting responsibility. The Controllers must have a well-defined career path to ensure a continual source of competent, trained and experienced financial managers to carry out the business of Government. Compensation for the Controller of the United States and the agency controllers must be generous, the maximum permitted by law.

Better accountability is critical. With the national debt in excess of $1 trillion, and annual interest costs in excess of $100 billion, plus shrinking revenues and expenditures that will not shrink, the Federal manager's personal commitment to using resources as economically and efficiently as possible is required as never before. There is a real need for structure, direction and continuity in the financial management function.

It is important to have a structure integrating the needs of internal users and responding externally to Government-wide financial management requirements—Congress, central agencies, operating agencies, even recipients of Federal assistance. There must be a single direction, a sameness of purpose and a consistency and uniformity in data accumulation, accounting and reporting.

The process must be apolitical. And continuity, at the highest financial management levels, is the only way to guarantee that the game of musical chairs will stop. Assistant Secretaries of Financial Management cannot continue to rotate on the average of every 18 months. This tenure is almost ludicrous when the complexities and

size of the agencies require 3 to 5 years to design and implement new financial systems.

In summary, Mr. Chairman, the Association of Government Accountants supports the intent and direction of the proposed bill. We urge that you carefully consider our Association's proposal for strengthening controllership in the Federal Government which has previously been provided to your staff.

We particularly direct your attention to our proposals as to tenure of such positions, specific qualifications for appointment, dual reporting relationships and an established career path.

We appreciate the opportunity to appear before you today. We will be happy to respond to any questions you may have, either now or any time in the future.

Thank you.

Chairman GLENN. Thank you very much, Mr. Donlon.

Mr. Kusserow, you are up next. Mr. Kusserow is the Inspector General at Health and Human Services, HHS, and last but certainly not least this morning.

We appreciate your being as patient as you have been this morning. Thank you.

Mr. KUSSEROW. Thank you, Mr. Chairman, if I may parenthetically add that the Department of Health and Human Services is the largest department. I would also note with some relief that some of the horror stories given as to bad financial management are confined primarily to the second largest department of the Federal Government. [Laughter.]

If I may, Mr. Chairman, if I could take advantage of your previous offer earlier this morning about abbreviating the testimony and submitting the written testimony for the record, I would like to do that.

Chairman GLENN. Your entire statement will be included in the record.

Mr. KUSSEROW. Let me first, then, give you where I am coming from. My perspective is, in fact, governed by the fact that I am Inspector General for the Department of Health and Human Services. But also, I am Vice Chairman of the President's Council on Integrity and Efficiency, and the previous panel contained the Chairman, and that was Joe Wright.

Also, from the third viewpoint was from the AGA. I would also note that I was also a member of that task force which was alluded to that had focused on this problem. So it is a long-term examination by me as to this concept, and I would just like to say at the outset that I applaud the effort of not only you but of the entire Committee focusing on this area which is sorely in need of perhaps a little Congressional leadership.

The viewpoint that I would offer today is that this approach offers two major benefits. One is the fact that you can affect dollar savings by this process of having better management. And secondly is the fact that you can have more accurate and more timely financial data being provided to not only the Administration but also to Congress, so we really know what is going on in the executive agencies and will have that often referred to score card to see just what kind of a job we are doing.

I think ultimately what that comes down to is that by having a central focal point for good financial management really ensure good continuity of good Government, and I think that is essential.

From the work that we have done, it is clear to me that the evidence is overwhelming that you can, in fact, effect improvements in financial management and they do have dollar consequences. In the President's 1988 Management Report he shows that interest savings from cash management from 1986 alone was $1.1 billion.

I would like to give some examples from within our own department, if I may, one of which is where we had observed the rate of contribution to the Social Security under FICA.

It was different from States than it was from the private sector, and by making it more consistent we could effect major savings and in OBRA Congress adopted that approach and CBO estimated that the savings over the budget cycle for Social Security would be $1.4 billion just by that one adjustment.

We also have done other areas where we have funded major programs where we have observed that there has not been sound cash management. One is a recent report that we issued relating to management problems at educational institutions, participating in health professions, student loan and nursing loan programs, and by recommendations that we felt that if they were put into place we would be able to save many, many millions of dollars in those programs, just by sounder cash management.

Also, the President's Council has focused in on this area. Under the aegis of the PCIE several IGs working together conducted a cash management audit covering the collection and deposits process in 6 Federal agencies, and the audit noted that the cash collections and deposits could be accelerated by as much as $3.2 billion, and the cost savings to the taxpayers would be $222 million as a result of that kind of an exercise.

Much has been said as to what is the cost of getting better cash management, what is the cost of doing Government in a more efficient fashion? To tell you the truth, the benefits are a lot easier to measure than the cost, and the benefit is hard to measure because we really do not know the full extent of the benefit because we have not focused on it officially.

But the cost is easy to figure. There is really no add-on cost that I have been able to determine as a result of a bill like this coming through, because all it suggests is that you reorganize, refocus existing resources within the Federal Government in a manner that would effect a good continuity of Government and effect better management of our resources and the end result is, whatever benefit accrues would be net to the taxpayer.

From our experience in HHS, we have had a great opportunity to see what some of the benefits would be, and as such we have been supporting, in our own department, the idea of having a chief financial officer. Last March, GAO issued a report to the Social Security Administration saying the Social Security Administration really requires some sort of controllership function, a chief financial officer.

I joined with them in urging Commissioner Hardy of the Social Security Administration to adopt that concept. She indeed has and she has appointed a Chief financial officer who is a career employ-

ee with sound financial management background, with the idea of bringing continuity, bring clout in that important agency.

Which leads me to one comment that I would make for consideration of the Committee, and that is that as we talk about chief financial officers in the departments, yes, I think that every department should have a chief financial officer, but I would like to echo some of my co-panelists in noting that it should not be confined at that level.

Today, the operations of some of these programs are at a lower level. Social Security is a prime example. Social Security is the largest business enterprise in the United States today. It is well over $200 billion in outlays. It by itself certainly warrants a chief financial officer right there on the scene looking at it.

Another agency of our department, the Health Care Financing Administration, represents 10 percent of the Federal budget at over $100 billion in outlays. I believe they need a chief financial officer.

I also believe that we need a chief financial officer in the department itself that will coordinate the roles of these other components in ensuring good continuity of Government, and we have urged that as well on the Assistant Secretary for Management and Budget and on the Secretary and they are in the process of trying to establish that kind of a function.

Among the things I think that are essential in having a chief financial officer in the departments is that you have to have a function that could advise the Secretary or the department head on financial management; develop and promulgate the department's goals and objectives for financial management; assign goals to program agencies to coordinate all the financial management activities and operations of the department; conduct department-wide financial management activities and operations; develop, in compliance with Government-wide standards, departmental standards for financial management systems.

The department chief financial officer may develop and maintain also the departmental financial management system itself. Also, they should develop the departmental policy and review and approve program agency financial management support budgets and plans.

Also, Mr. Chairman, at the risk of giving a free plug to other work of this Committee, I would like to suggest also that this function, pursuant to Senate Bill 908 which is not pending, and that is that the chief financial officer should ensure that in the audit resolution process, that program managers follow through on their commitment to effect program corrections and to collect the money that has been identified as being inappropriately expended.

Furthermore, this CFO should review and respond to program agency annual financial management reports and prepare an annual departmental report to the Secretary, the President and the Congress on the status of financial management within the Department.

And finally, after audit of the program agency financial statements by the Inspectors General, as has been urged by Chuck Bowsher continually for the last several years, the chief financial officer should prepare a departmental consolidated report for sub-

mission to the President, setting out the financial condition of the department, including necessary departmental actions and recommendations to the Administration as well as a statement of the efficiency of the audit resolution process.

So I think there is a great role it should have. The only concern is that I have not seen anybody disagree with the idea of having a CFO. The question is, where should that top CFO be located, and there is where you have some differences. I am not sure I could provide much insight to that process.

The only thing I would say is that probably the folks that are going to be interfacing strongest with these chief financial officers are going to be the Inspectors General, the auditors for the Federal Government.

I find it somewhat ironic that Treasury, which is being considered to house this chief financial officer, is a department that not yet has an Inspector General, statutorily based, and at this time still opposes the notion of having a statutory Inspector General. Yet we as Inspectors General would be feeding into the chief financial officer process and I do not know how that would work if it were based in Treasury.

The only thing I can say is that I would like to echo what has been said about what you need if you want to have an effective chief financial officer for the United States Government, and that is, it has to have a statutory basis. We have seen and we have heard repeatedly today that without having that statutory basis you just are subject to the whims.

I would have to say that Jerry Riso is one of my closest friends in town. I would say that he would be an outstanding chief financial officer, but I would also say, I do not think that his tenure in the Federal Government can be expected to be much longer than 18 months, and what happens after Jerry Riso? Who will be the next person and will they have the same personality, the same experience in Government to be able to carry through?

I think not. So I think you have to have a statutory basis. I think that there has to be some built in accountability, and that is, accountability not only to the President but to the Congress to ensure that there is an honest game being run in town. You have to have an institutionalization of the concept and you have to have some sort of reasonable expectation that the chief financial officer is going to be around for awhile.

Now, whether that comes as a result of establishing a tenured position the way it is for the head of GAO, the Comptroller General of the United States, or whether it will be someone on the model of what you have for your inspectors general, which is, they serve at the pleasure of the President; however, you really need to have a cause to remove them. Whatever the approach may be, there should be some institutionalization to keep it from being just strictly a political appointee, with an average tenure of 18 months to 2 years.

With that, Mr. Chairman, I would be pleased to answer any questions that you might have.

Chairman GLENN. Thank you, Mr. Kusserow. Thank all of you. Those are excellent statements and let me ask you first a question, Mr. Kusserow, about what led you to establish a CFO at the Social

Security Administration. I agree with you doing that. Was there any particular thing that led you to that or just thought it would be more efficient administration and, I know it has not been in place very long, but can you give us any results that may have occurred, even in that short time period?

Mr. KUSSEROW. Well, I think part of it has been——

Chairman GLENN. When was it established, number one? It was only 2 or 3 months ago?

Mr. KUSSEROW. It has only been since March when the recommendation of GAO came in and we supported it and we met with Dorcas Hardy, the Commissioner of Social Security, and really sold hard on the notion that Social Security needs continuity and management and the only way that can come about is if you build a chief financial officer function, a controller-type function, that could make sure that the day-to-day operations and the financial management of that great agency will go on without being buffeted around by changes in political leadership. And so, at that point, she agreed. I think that was a pretty potent combination for her to come up with, with both GAO, the arm of the Congress, and her own Inspector General urging the same thing, as she put it into effect.

As to your previous question about how did I come to feel that this was a good idea to begin with, I think part of it has been the education of the Inspector General at HHS. Part of that educational process, I can thank the Association of Government Accountants, who put me on that task force and so, for several years, I have been very closely working on the issue and step-by-step, day-by-day, I have further convinced that that kind of function is needed in the Federal Government and that without it, we are just going to go by fits and jerks through the management of this great Government of ours.

Chairman GLENN. With our emphasis on budgeting here, as everybody is aware, we try and quantify things. We try and hook up dollar figures as fast as we possibly can. When you were doing your studies of that or when you were looking at whether to put a CFO at Social Security, did you have any projected dollar returns or efficiency returns that we can quantify at all?

Mr. KUSSEROW. I can do it to this extent. It is almost infinitesimal against the cost because there are going to be no add-on costs. There is going to be a restructuring using the existing resources that are doing exactly the same thing, but to have it better coordinated and that is all. So, the cost side is nil.

On the benefits side, as I mentioned, just one example, from one cash management issue that we had to sell directly to the Congress, but it would have been a lot easier to sell it to the Congress if we had had a chief financial officer there with us, and that was just the notion of how you make deposits to FICA and the loss on the float. The CBO costs it out that Congressional action and over is $1.4 billion in the budget cycle, by one cash management action in Social Security.

So, I think, and I would also tell you that there probably are 20 or 30 similar type issues floating around in our Department, and probably another half dozen in Social Security alone, that we could act on. The problem is, though, that you do not want somebody

who focuses on it for short periods of time and then has some other duties to do and then forgets it. You want somebody who is charged with the responsibility of following through with cash management, financial management ideas, is held accountable to explain why they have not adopted or not accepted or had not moved ahead with it. Right now, you cannot find anybody who is specifically responsible, who has that as their full-time responsibility, that is sufficiently at a high enough level within an agency.

Chairman GLENN. I know it is very difficult to give a figure on what are the costs of doing this, what the benefits are going to be in return. Any of the rest of you have ideas on that? Mr. Uyeda, you have had the experience of both the private and the Government sector on this, public and private financial management. You have done research on it. Can you give any expected rate of return in new efficiencies or anything like that? Is there any dollar figure we can hook to this?

Mr. UYEDA. Yes. As I mentioned in my testimony, I think the private sector, the corporations have been successful in centralizing the authority and the responsibility for central financial management systems. I do not have an overall figure, but in recent visits that I made to a couple of corporations, one multi-national corporation mentioned the fact that, through their centralization effort, they expected a return on investment something to the tune of 25 percent annually. Another corporation, which is a huge national organization, did mention the fact that——

Chairman GLENN. This would be 25 percent, not 25 percent efficiency for the whole company? You are talking about what it cost them to put the——

Mr. UYEDA. To put the new system in, yes, sir.

Chairman GLENN. OK.

Mr. UYEDA. Another corporation characterized their cost saving in terms of that they are able to perform the same financial management centrally, at the 75 percent of the ongoing cost, so there is a 25 percent saving in the cost that had been incurred for that purpose. This is a corporation that has about 8,000 people involved in financial management, financial reporting, and so forth. Those are the two specific statistics that I can give you.

Chairman GLENN. And we are talking about a Government entity. Mr. Burris, do you have any—what has been your experience or observations as to what kind of efficiencies we get or what kind of savings we make if we put something like this in? Can you give us any figures?

Mr. BURRIS. Yes, Mr. Chairman, I can recall when I came into the comptrollership of Illinois in 1979, there were several audit exceptions of what we were supposed to do in reference to financial management reporting and I met with our Auditor General, who would be comparable to Mr. Bowsher, the U.S. Auditor General, and he explained to me why those audit exceptions were there—that there was no financial accountability, that he was not producing financial statements, and we made the move to create just a financial report in accordance with Generally Accepted Accounting Principles for the fifth largest State in the Nation—a $20 billion operation with over 120,000 employees spread throughout the State and across the country, and even in foreign countries.

So, we proceeded to pull together all of the financial information, after an 18-month task, and we produced a financial statement that was certified by the outside auditors and, then, of course, from 1982 on, we have issued bonds. Our Auditor General said, because of the issuing of the bonds and the investors then had a very good picture of what the financial condition of the State of Illinois was, that it has saved us, over the life of those bonds, about $100 million.

Another example would be my attempts to establish an entire accounting system—and this is accountant's language and I am an attorney, Mr. Chairman, not an accountant—but it is a whole accounting system in accordance with GAAP, Generally Accepted Accounting Principles and it will cost us at a ceiling of about $40 million to institute this entire system, but we are estimating that annually, because of the elimination of duplication in the agencies and the double bookkeeping and the failure to be able to audit and make proper adjustments without a lot of man hours, that we will be saving a minimum of $33 million a year.

Now, that is at the State level and I think it has produced for us that type of financial information and receiving from the Government Finance Officers Association, just received for the third year, a certificate based on the information that we put out, the Certificate of Achievement, which says that Illinois' financial information is one of the best that a Government entity can put out. We have made some tough changes with some substantial political overtones. When you have elected officials trying to do this, it gets a little tough and I understand also, that we have the two houses of Congress that we have to deal with on this issue.

I just hope that we can get this far in the House of Representatives, as we have been able to get with your Committee, because it is essential that the House of Representatives hear what you have heard. It will produce savings. I made a statement to Representative Brooks when I met with him—and I came off the top of my head—you could save $25 to $30 billion. I said that is a minor figure and he was a little bristled at my being able to say that, but if you can get a hold of the costs, if you can show how you can collect the debts and you can track those and get into the Pentagon, I am sure that you can save. I am just not able to document it, because I do not run the system. If I ran this system, I would be able to do it and show you where you could do some savings, but the savings are there, just by management.

Chairman GLENN. Mr. Haller, do you have any comment on that as to what projected savings can be? I know it is difficult, but I thought, in your background where you deal with big corporations and so on, you might have some figures on that?

Mr. HALLER. Well, first of all, I guess I would say that most private sector corporations have reached the conclusion long ago that they simply cannot continue to operate effectively in any kind of a market, competitive or otherwise, without the kind of basic, very, very basic kind of controls that we are talking about here. I would totally subscribe to Dick Kusserow's comment that the cost involved here is absolutely nothing. The cost involved is to redirect the energies that are currently being spent in an extremely waste-

ful fashion, duplication, up and down the line, and the savings—I think we all have a tendency to probably under-estimate them.

I think the savings are mind-boggling. I think the savings in the reduction of time of Congress pursuing the endless trail of trying to find $680 million, we cannot count it. There is just no way to count it, and yet, we need to all feel ashamed that we sit as part of such a process and we are struggling to get some kind of control. Needless to say, I think the savings are overwhelming and that no matter what figure was mentioned here at this table, if we could look back 10 years from now, and this was the start of something really big, we would be floored by what had been saved in the process.

Chairman GLENN. Mr. Donlon, do you have any comments on this?

Mr. DONLON. Sir, I also do not have any firm figures. However, based on my experience of being involved in accounting systems in the Federal Government since 1966, we always found two things. First, the agencies that had strong leadership with continuity, and a concerned attitude, always seemed to have the fewest financial problems. They were not perfect, but they had the fewest problems.

Second, we also found that as of 3 years ago, those agencies who throughout the years that had tried the hardest to comply with GAO requirements, had never been involved in one of the significant financial problems. So, we always believed that the effort that agencies put into good accounting systems were worthwhile. Therefore, losses, that sometimes are $350,000, or $3 or $4 or $6 million, just did not happen in those agencies.

Chairman GLENN. One other area and it is getting late and I appreciate your bearing with us. We have been here for 3 hours now and we usually try and cut our hearings a little shorter than that, but appreciate you sticking with us. One other area I want to explore. Several of you mentioned this idea of the independence, the apolitical posture, making the comptroller's tenure not match the election cycle perhaps, be longer than that, or you said 8 years, that could match the election cycle. I would like your opinions on that.

We have not taken that fact. I personally would like that, but I am not sure we could sell that. At most, we could show some major advantage to it. I think people see the GAO—that position, it is important that that be a non-political position and that it go on an oddball set of times, so it specifically does not match election cycles. I think that is important. If we are going to this CFO concept, I think that a lot of people in the political field would look at it as though that it is the President's right to control the financial reporting system that he wants.

I would tend to think the other way myself, I guess, that it would be good if we had a financial reporting system that is apolitical. It is there, it is the best, it is the most modern, it is equipped, it is whatever, and the information flows, then it is usable to Democrats, Republicans, Independents, or whatever party comes up in the future. The same requirement is there for everybody. I think the option of putting that in is probably pretty remote right now, but I would appreciate your views on that as to—and perhaps Mr. Burris is a good place to start because the first thing I would ask, I

guess, is, as you comment on this, are there any States that do that? That have a comptroller that does not match the election cycle? I guess it would have to be an appointed position with some sort of different term from the election period. Are there any States that do that and, if so, how does it work and what are your comments on it in general?

Mr. BURRIS. Mr. Chairman, I do not know of any States who appoint their comptrollers who are not contiguous with the chief executive. Most of the big States elect their comptrollers—New York, California, Illinois—there are about 12 elected and some of them then become financial directors. If you take most of the big States—Texas, also Florida—they elect their comptrollers, there is a division of the various functions and they work very well. OMB or, in Illinois—let's take Illinois for example—we have an office that is the Bureau of the Budget. That is really the person who protects the Governor or protects the President and gives him the numbers and deals with the numbers with Congress.

But somebody has to be out there, independently, looking at the spending and putting those numbers together for financial accountability and financial records. So, the Illinois constitution, which came about in 1970, really created this thing called an independent position. There was a big debate whether or not that office should be elected or should be appointed, and the constitution came down on the side of making that office elected. So, we elect a Governor, a Comptroller, and a Treasurer. The Treasurer actually has custody of the money because we had a problem in Illinois, back in the 1950s, and by creating that and splitting those functions, where the Comptroller actually tracks all the spending, the Comptroller even initiates the warrants, and the Treasurer counter-signs the warrants, for protective purposes.

So, the division there—and the Comptroller does have the clout. The Governor cannot tell the Comptroller or fire the Comptroller, and personally, we have a battle going on in Illinois right now between the Governor and the Comptroller, but we have that independence. The independence, in order to be effective in working with his agencies, has to be there. So, we have a Bureau of the Budget, that protects the chief executive. We have a Comptroller, who is independent and has a 4-year contiguous term.

In those States where they are appointed, for example, North Carolina just created a comptrollership position because its Auditor General and its State Treasurer felt that they were in conflict. You cannot set standards and audit, too, so North Carolina created—and they went to the appointive route—but that person is appointed and confirmed by the North Carolina State Senate. So, it does have a degree of independence there, but the terms, however, go along with the chief executive.

Because of the size of the Federal Government, because of the complications of the Federal Government, and because there is precedent for the Federal Government, you cannot elect this individual. The ideal situation would be to elect him, but you cannot do that. Then, you have to look at what precedents you have, and the Comptroller General comes as close to the precedent as possible, to give this person tenure, to give him independence where he reports

to the chief executive, and thereby can move, in those agencies, to try and get results.

Chairman GLENN. Would all of you favor a comptroller or a chief financial officer being set up like GAO, as an independent, longer term operation? Anybody want to comment on that? Would you favor that? Would all of you?

[No response.]

Chairman GLENN. Would anybody object to that, let's put it that way?

Mr. BURRIS. By the way, Mr. Chairman, really the GAO should be—and this is another point to put into the system—the U.S. Auditor General, under the State system, we have a State auditor who reports to the General Assembly. The U.S. Comptroller General should be the chief financial officer and that is what AGA is proposing—that that title of this chief financial officer really be the U.S. Comptroller General. The U.S. Comptroller General—this is going to be technical and sensitive, I understand that and it might be difficult to do, but this is the ideal situation—the U.S. Comptroller General would become—with the same functions and authority—the U.S. Auditor General.

Chairman GLENN. Would you propose, then, would there be a chief financial officer? Would that be under GAO or be part of the GAO function, as you would propose it?

[All say no.]

Mr. HALLER. I think what we are suggesting is, that we have created a good deal of confusion over the years with the title Comptroller General being assigned to an organization that originally was in charge of keeping the books and about 30 years ago, we decided that they were going to stop keeping the books and the Executive Branch was going to keep the books, and we changed their whole function to an audit function. It serves a very appropriate function, at this point in time, we just forgot to change the name associated with the organization. So we keep attributing, to the General Accounting Office, some of the responsibilities that we, in a modern financial community, would say belongs with the chief financial officer and we need to create, in the organization of the Federal Government, a financial management organization that acts in tandem, on the Executive side, with the function that is being performed by the Auditor General serving the Congress on the Legislative side.

Chairman GLENN. GAO, in the interim period there, too, in that 30-year period, has also assumed the role of sort of the investigative arm of the Congress, where we get them into all sorts of things where we just want information on a certain subject. They have become the biggest study group in Washington, and do a good job at it. I would not change that one iota, because I use them all the time, this Committee. How many studies we have going at GAO on any given day, but it is quite a number, I know that.

Mr. BURRIS. We do the same thing at the State level with our Auditor General. He actually investigates, for the legislature, and reports to a committee of the legislature, for the legislative responsibilities.

Mr. UYEDA. Mr. Chairman, with respect to the question of tenure, I would like to submit to you that an unusual problem re-

quires an unusual solution. By having a short tenure, by a political appointee, I think we are being subjected to short-term visions, short-term objectives, short-term accomplishments, and a fix-it mentality. I think also that when we have a political appointee, we are faced with a short period of time in which certain things have to be accomplished. The current Administration is now committed to doing certain things within 18 months. Some of us believe that their program is very, very ambitious.

There is kind of a joke, if you will, that goes around the various agencies saying, "We always have time to do it over again but never have time to do it right the first time." I think that kind of a feeling permeates. In addition to that, with short-term leadership in OMB, I think there is a mentality in the agencies that says that. "This too shall pass." You will often see lip-service toward improvement efforts. I think—if I may go back into the history a little there has been, in the old Bureau of the Budget days, we did have, in fact, what I would refer to as a chief financial czar. That was the Office of Accounting. But again, as the testimony went this morning, there has been very little resources provided to that office and also, that as time passed, that particular organization was delegated down into the organizational pits some place.

To talk about new programs, I think it is no secret that during the Nixon Administration, we had the program of Management by Objectives. One of the objectives was to improve financial management. During the Carter Administration, we had a Financial Priorities Program. We had cash management improvement efforts. We had credit management improvements and we had financial management improvement efforts with the specific purpose of complying with the GAO principles and standards. Now we have Reform 1988, and we have credit management, cash management, and other financial management efforts.

What I am getting at is, that every time a new Administration comes in, every time there is a new leadership, we have to redefine what their program is and attach their own label to that particular program. So, what I am rhetorically asking is, why not have a continuous program that is referred to as a financial management improvement that will carry on, in spite of the changes in the political leadership.

Chairman GLENN. Yes.

Mr. KUSSEROW. Mr. Chairman, if you are looking for alternatives, there is another model that you might consider. It is the model that I operate under and that is, that of the inspector general, the statutory inspector general, where they are Presidential appointees, but they are under the hat check. They are not political and not to be considered because of their political persuasions or work that they have done on behalf of one political party or another, but on their technical qualifications. They serve at the pleasure of the President but there is a little extra hook in there that Congress put in which is unique.

It says that you cannot remove this individual without first informing the Congress so you make sure that you are not just killing the messenger that brings bad news. I believe that that has worked, when you consider the fact that you have inspector generals that not only have been around a long, long time in this Ad-

ministration, but you have inspector generals that were appointed in the previous Administration, which are still inspector generals. That provides another way of having continuity.

It is another way in which it has worked. It is another option that might be considered and I do not think that there are any voices around that say that the inspector general has been politicized or that they are being removed for political reasons or they are, in any way, being thwarted by the political process. So, that model is something to be considered as an alternative to a tenure appointment.

Chairman GLENN. That is a good idea and we are in the process of expanding the IG set-up now, as you are aware, and that S. 908 that was referred to earlier, is our legislation, my legislation, and it is one that we are involved with right now. We are getting a lot of kicking and screaming, but we got that on the original bill also, which is now 10 years old. We passed that thing back in 1978—late 1977 or 1978—and with sort of crossed fingers and we hoped it would work and we were not quite sure how it would work and the IG set-up, I think, has been very, very good. It has worked very well and it is something that we are trying to expand now to the units of Government that were not brought under that to begin with because of various objections at that time.

Obviously, were you have some place like Treasury, that has Secret Service under it, and Bureau of Alcohol, Tobacco, and Firearms, BATF, IRS, there are some very special considerations there for groups like that that we are trying to work out the differences on. We left out the Justice Department. There was a lot of problem over there to begin with. Maybe we will get around to that one of these days, too. NRC is another one we left out originally because of some of the nuclear security concerns. So, we are moving to get IG's established in those areas and so I am very sympathetic. It was this Committee that passed the IG bill and I was part of the group that did that way back there and we think it has worked out very well. So we can take another look at that as a model for some of this, too.

Mr. KUSSEROW. Mr. Chairman, also, I failed to respond to one portion of a question you asked me earlier and if you would like, I can. You had asked about this chief financial officer at Social Security. If you would like, I have a draft statement as to its basic function and responsibilities and duties that I will be happy to submit for the record.

Chairman GLENN. We would appreciate that.

Mr. KUSSEROW. I will confess, however, that it will parallel very strongly some of the testimony that you heard today, particularly with regards to the AGA task force because, when they were developing the model, I turned over all my notes from that meeting, as a guide for them in developing the office, so I think you will find a lot of parallel functions and duties.

Chairman GLENN. Good idea. It can stand repeating. That is all right. Gentlemen, I am going to have to terminate because there is a Democratic caucus coming up very shortly, over here on some of the legislation on the floor. Obviously, this has been interesting or I would not have continued the hearing this long. We could go on for some hours here and we may want to get back to you on some

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of this and there may be other members of the Committee that will want to submit questions to you to be part of this, if you will answer those reasonably promptly, we would appreciate it. And I really do appreciate your sticking around today.

This has been a long, long hearing today and it was rather truncated because of the other events that occurred here, so appreciate you being here. It has been very good testimony and good discussion here. So, thank you and the Committee will stand in recess, subject to the call of the Chair.

[Whereupon, at 12:40 p.m., the Committee was recessed, subject to the call of the Chair.]

APPENDIX

United States General Accounting Office

GAO Testimony

For Release
on Delivery
Expected at
9:30 a.m. EST
Thursday
July 23, 1987

The Federal Financial Management Reform Act of 1987

Statement of
Charles A. Bowsher, Comptroller General
of the United States

Before the
Committee on Governmental Affairs
United States Senate

Mr. Chairman, I am here today to express my support of your efforts to bring about urgently needed improvements in federal financial management. The federal government's lack of effective financial management and accountability is being increasingly highlighted through our own reports as well as those made by agency heads under the Federal Managers' Financial Integrity Act and by the inspectors general. Recent reports are replete with examples of problems ranging from an inability to account for a half billion dollars of foreign military sales deposits to an inability to manage or report on the loans and accounts owed to our government. Billions of dollars are being spent on uncoordinated efforts to upgrade accounting and financial management systems, but these efforts have routinely failed to meet their objectives. I am concerned about our government's inability to effectively hold federal managers accountable for their financial activities, generally because we lack essential financial data.

I am also concerned about our continued reliance on antiquated systems that do not provide the information required for effective management, program, funding, and revenue-generating decisionmaking. We can no longer afford to rely on systems and concepts that do not provide the financial information and accountability needed by the Congress, federal managers, and the public.

Your proposed legislation, the "Federal Financial Management Reform Act of 1987," is an important step in addressing these long-standing problems. This legislation provides for the leadership needed to improve federal financial management, establishes a formalized planning process to guide the improvement efforts, and provides a legislative mandate for annual preparation and audit of agency financial statements, capstones necessary to ensure discipline and accountability in our financial systems.

As I stated in a recent letter to you, I believe that financial management reform is more likely to be successful if it has a legislative underpinning rather than being guided by uncoordinated, ad hoc initiatives. I believe such legislation should include

-- centralized financial management leadership that is responsible for developing and implementing a governmentwide improvement plan,

-- corresponding financial management leadership in executive branch departments and agencies, and

-- annual preparation and audit of agency and governmentwide financial statements.

Your proposed legislation provides for these vital elements. It provides for leadership by establishing an Under Secretary of the Treasury for Financial Management and chief financial officers in the 13 cabinet departments and 9 other departments and major agencies. It formalizes the planning process by requiring the under secretary to develop and implement a plan for improving federal financial management. Also, it promotes discipline and accountability by providing for audits of agency financial statements by GAO or other independent auditors. I believe, based on my experience and judgment, that this proposed legislation would significantly improve the operations of government and result in substantial savings.

NEED FOR A LEGISLATIVE MANDATE

I would like to spend a moment discussing the importance of providing a legislative mandate such as your proposed legislation for this much needed reform effort. In 1985, we issued a report entitled Managing the Cost of Government (GAO/AFMD-85-35 and 35A) on the need for comprehensive reform of federal financial management. We stressed that effective reform requires consistent and continuous effort and leadership.

The need for continuity and stability in management reform is not a new idea. In fact, GAO studied centrally directed, governmentwide management improvement programs conducted in the

1970's and found that few initiatives had lasting impact. I believe that many of these initiatives would not have been so short-lived if there had been a legislative mandate to ensure that they would continue in existence and be consistent across successive administrations.

Organizations and the people who manage them naturally resist change. Reform initiatives, whether short-lived or permanent, represent change. Therefore, it is not surprising that administrative actions to improve operations are not fully successful, particularly when agency personnel perceive that there will be new directions from succeeding managers. The existence of a legislative mandate would provide the needed assurance that an initiative's direction, and indeed its very existence, would be stable.

CENTRAL AND CONTINUING LEADERSHIP

Our 1985 report also stressed the need for consistent and continuing financial management leadership throughout the executive branch as another crucial element of the reform effort. As I testified in hearings before this committee earlier this year on improving federal management and accountability and last year on Senator Roth's bill, S.2230, our work has demonstrated the need for increased leadership and planning to strengthen federal management in general and federal financial management in

particular. I continue to believe that if this reform effort is to be successful, a central office and position must be established in law and dedicated to planning, implementing, and overseeing the reform effort as well as providing the central and continuous leadership so desperately needed.

By establishing an Under Secretary of the Treasury for Financial Management, as is proposed in your legislation, the government would have the needed leadership and an office with a mandate to improve financial management. In addition, establishing agency chief financial officers, who should be career employees, goes hand in hand with the establishment of the governmentwide central office. Agency chief financial officers would provide the continuity needed for improved agency financial management and support for the central office. They would provide a conduit for policy and guidance from the under secretary to the agencies and for financial reporting from the agencies to the under secretary.

The next question is where to locate this central office. Various proposals have been made, but I believe that this bill offers a superior proposal by establishing the financial management leadership position within the Department of the Treasury. I believe Treasury can offer a stability of leadership that cannot be expected in the Executive Office of the President. Treasury already performs the central financial and reporting

functions of the government and has lead responsibility for important financial management initiatives such as cash management and debt collection, as well as monitoring agency financial management systems improvement projects. Treasury also establishes financial reporting requirements that agencies must follow. Furthermore, Treasury has already established the Financial Management Service, which could directly support the under secretary's efforts.

The Office of Management and Budget (OMB) also recognizes the need for stronger leadership. In its fiscal year 1988 management report, OMB said that the establishment of a chief financial officer is a key measure in support of improvements in financial practices and systems. In fact, OMB has indicated that its current Associate Director for Management will become the first chief financial officer.

As I have said, I also strongly support the creation of a chief financial officer; however, I believe that the office should not be in OMB or in any part of the Executive Office of the President. I am concerned about OMB's historic lack of support for management activities in deference to budget responsibilities. Proponents of establishing a chief financial officer in OMB point out the potential for using the influence of budget decisions to gain agency cooperation and support for financial management activities. This linking of budget

decisions to management improvements usually has not been the case. Furthermore, former government officials who were instrumental in establishing OMB said at hearings before this committee last year that, had they to do it over, they would have created a management office separate from the budget office because of the secondary importance OMB has placed on management issues.

In addition to OMB's natural focus on the budget, I am concerned about the frequent turnover in top-level positions. Recent support at OMB for financial improvements demonstrates that when someone takes an active interest, progress can be made. However, the very fact that progress is dependent on who takes an interest demonstrates the tenuous position we are in. If we look at the chain of command at OMB as it relates to financial management since 1981, we find there have been two directors, two deputy directors, and four Associate Directors for Management. What will happen when the senior financial official leaves OMB? How long will it take to find a replacement? And how long will the successor be on the job? How much time and attention can be focused on financial management? Will the pressure for improvements and policy directions be continued?

Such organizational instability can have profound effects on the line agencies throughout the executive branch as they try to

implement policies established by a changing group of officials in OMB. This problem is compounded when you consider the managers in many departments and agencies without a central financial management leadership who must react to internal organizational instability as well.

LONG-RANGE PLANNING

Equally important to the success of the reform initiative is the need for the central leader to develop and implement a long-range, governmentwide plan to improve and operate federal financial management systems. Trying to institute improvements without such a plan is like trying to build a house without a set of architect's drawings.

An overall plan for executive branch financial management systems would generate greater confidence that the financial management system upgrades would result in integrated systems for the government as well as in information needed by individual agencies. Additionally, the planning process would reveal opportunities for (1) reducing the number of accounting systems by use of cross-servicing arrangements where one agency performs financial services for other agencies, (2) eliminating redundant or antiquated systems, and (3) sharing system designs among agencies to avoid the all too common problem of "reinventing the wheel." Finally, an overall, long-range plan would also provide

a measure of direction and continuity when leadership changes, centrally as well as at the agency level.

FINANCIAL STATEMENTS AND AUDITS

As I have indicated, I believe the preparation and audit of agency financial statements is an integral part of improving financial management by promoting discipline and accountability. I strongly endorse your bill's requirement for the annual preparation and audit of agency financial statements. I recommend that the statements be prepared in accordance with the Comptroller General's accounting principles and standards and that audits be conducted in accordance with generally accepted government auditing standards.

Much can be gained by the preparation of agency statements and their subsequent audit. The process of preparing and auditing financial statements instills discipline in agency accounting and reporting systems because it establishes accountability. Financial statement audits ensure there is a proper link among accounting transactions, accounting systems, financial statements, and financial reporting to Treasury, OMB, the public, and the Congress. They provide an opportunity for an independent auditor--the agency inspector general, a public accounting firm, or GAO--to determine whether adequate safeguards are in place to protect resources entrusted to the agency and

whether the agency accurately discloses the financial aspects of its operations.

With such sound reasons for performing financial audits, it is not surprising that the federal government has long mandated financial audits as a matter of public policy. Since 1934, publicly-traded companies have been required to have annual audits. In addition, financial audits were part of the conditions attached to assistance provided New York City during its fiscal crisis. Furthermore, governmental recipients of federal funds are required to have their financial statements audited under the provisions of the Single Audit Act sponsored by this committee.

I also believe that, ultimately, the under secretary should be required to develop governmentwide financial statements and that they be audited by GAO. Governmentwide financial statements would provide information not found in budgetary reports. Such information is useful for many purposes, such as improving cash management, planning capital replacement, and assessing the performance and financial position of the government. Taxpayers and others would be provided supplemental information regarding the financial position of the government that would be presented in a manner that could be understood by the average lay person. Publication of governmentwide statements would disclose the cumulative financial effects of decisions on the nation's

resources and provide early warning signals of potential problems to policymakers.

GAO conducted a study in conjunction with the Auditor General of Canada to investigate the information needs of users of federal government financial information. Our report, the Federal Government Reporting Study (GAO/AFMD-86-30), identified several issues, such as how to define and value fixed assets and how to report on the Social Security system, that need to be resolved before the governmentwide statements can be published. We are currently working on addressing those issues; however, in the meantime, agency efforts to develop financial statements need not await resolution of these issues.

I cannot stress enough my strong belief in the importance of statutorily requiring the preparation and audit of agency, and ultimately governmentwide, financial statements on an annual basis and in accordance with generally accepted principles and standards.

BENEFITS OF FINANCIAL MANAGEMENT REFORMS

I believe the need to institute lasting financial management reform is widely recognized, but questions arise about whether, in times of budget austerity, the government can afford to make the improvements. In other words, can the proposed improvements

demonstrate benefit/cost ratios that outweigh sound reasons for funding other budget priorities? I believe that we can't afford not to make the improvements because of the millions of dollars of unnecessary costs and losses in revenues to the government brought about by the absence of good financial information, adequate systems, coordinated systems upgrades, adequate internal controls, routine financial statements, and periodic financial audits.

First, I want to acknowledge that it is difficult to place a monetary value on timely, reliable financial information. It is also hard to estimate the benefits of making informed decisions or the costs of making bad decisions because sufficient information is not available. But let's look at the situation from another perspective. Can the government afford not to make the financial management improvements? How can the Congress decide the worth of a particular program if the full cost is not known? How can agency management evaluate performance without consistent financial information? How can agencies decide whether to continue performing commercial services or contract out without good cost information? How can we establish and demonstrate accountability to the public? Without timely, reliable information, the Congress and agency management are forced to make important decisions without full knowledge of the true costs of prior decisions. The credibility of the government is at risk when federal financial management failures all too

frequently appear in national news. Failure to institute meaningful improvements will subject the government to ridicule.

There are numerous examples where better financial management systems and practices would save the government money. During an audit of the General Services Administration financial statements, we detected problems in billing for services that subsequently led to $8 million in collections. Our financial audit of the Federal Crop Insurance Corporation disclosed that lack of controls resulted in payment of improper claims in amounts that could ultimately run as high as $100 to $200 million. Hopefully, these problems will not occur again at these organizations. But, where else will we find similar problems? The emphasis on program execution--delivering services to beneficiaries, providing national security, or performing scientific research--often takes precedence over adequate safeguards and financial reporting.

We also believe that significant benefits could be achieved by upgrading systems. For example, the Internal Revenue Service (IRS) estimated that an automated financial system being developed will cost about $49 million and will provide $625 million in benefits over the life of the system, including $50 million annually in increased revenues. IRS projected a benefit-to-cost ratio of 12.7 to 1 for the project. Another agency has

projected a 10-percent return on investment on a project to upgrade its personnel accounting system.

The benefit of adequate accounting and budgeting systems to the Congress is demonstrated by recent action concerning the Forest Service's fiscal year 1988 appropriation hearing. The House Appropriations Committee's Subcommittee on Interior and Related Agencies reported that inaccurate accounting over the years has led to inaccurate budgeting. Consequently, the Congress could not determine whether the funding for congressional goals has been excessive or deficient. Furthermore, the lack of such information denied the Congress the opportunity to make funding adjustments in succeeding years. The committee report said that if the accounting system being developed meets expectations, the committee could envision shifts in the budget in future years to more accurately reflect where the funds are actually being spent.

I could go on with numerous examples of problems and weaknesses in federal financial management practices and systems that result in substantial costs and losses of revenues to the government. We would be happy to supply additional examples for the record.

CONCLUSION

In summary, I believe that for financial management improvement to be effective and lasting, it must be legally mandated, it must be guided by a cohesive framework and plan under centralized leadership, and it must provide accountability and discipline of financial statements and the performance of annual financial audits. Your proposed legislation provides those essential elements, and I am convinced that such legislation would generate substantial savings to the government.

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This concludes my remarks. I would be pleased to answer any questions that you or members of the committee may have.

STATEMENT BY
SUSUMU UYEDA, EXECUTIVE DIRECTOR, RESEARCH CENTER OF THE
PRIVATE SECTOR COUNCIL

ON THE DRAFT BILL "TO IMPROVE FINANCIAL MANAGEMENT
IN THE FEDERAL GOVERNMENT"

BEFORE THE SENATE COMMITTEE ON GOVERNMENT AFFAIRS

July 23, 1987

MY NAME IS SUSUMU (SUS) UYEDA. CURRENTLY, I AM THE EXECUTIVE DIRECTOR OF THE RESEARCH CENTER OF THE PRIVATE SECTOR COUNCIL. I AM A RETIRED FEDERAL EMPLOYEE WITH 31 YEARS OF SERVICE INCLUDING ASSIGNMENTS WITH THE DEPARTMENT OF THE ARMY, THE DEFENSE SUPPLY AGENCY, (NOW, DEFENSE LOGISTICS AGENCY), THE GENERAL ACCOUNTING OFFICE, THE OFFICE OF MANAGEMENT AND BUDGET, AND THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM.

THE PRIVATE SECTOR COUNCIL IS A NONPROFIT, NONPARTISAN ORGANIZATION DEDICATED TO IMPROVING MANAGEMENT EFFICIENCY IN GOVERNMENT. IT PROVIDES A PRO BONO COOPERATIVE PROGRAM BY WHICH PRIVATE SECTOR EXECUTIVES AND MANAGERS SHARE THEIR EXPERIENCE, KNOWLEDGE AND EXPERTISE WITH GOVERNMENT AGENCIES FOR IMPROVING MANAGEMENT AND, THEREBY, HELPING THE GOVERNMENT TO USE ITS SCARCE RESOURCES MORE EFFICIENTLY AND EFFECTIVELY AND TO REDUCE THE NATIONAL DEFICIT.

SINCE ITS INCEPTION IN MARCH 1983, THE PRIVATE SECTOR COUNCIL HAS ENTERED INTO WORKING AGREEMENTS WITH 14 MAJOR FEDERAL DEPARTMENTS AND AGENCIES, HAS COMPLETED 81 PROJECTS TO DATE, AND IS CURRENTLY WORKING ON 24 ADDITIONAL PROJECTS. THE PRIVATE SECTOR COUNCIL IS SUPPORTED BY OVER 140 MAJOR CORPORATIONS, FOUNDATIONS AND

ASSOCIATIONS THAT ASSIGN PRO BONO EXPERTS TO WORK ON PROJECTS AND PROVIDE FINANCIAL ASSISTANCE FOR ITS OPERATING EXPENSES.

IN MY TESTIMONY TODAY, I WOULD LIKE TO (1) OFFER COMMENTS ON YOUR DRAFT BILL "TO IMPROVE FINANCIAL MANAGEMENT IN THE FEDERAL GOVERNMENT" AND (2) DESCRIBE BRIEFLY HOW CHIEF FINANCIAL OFFICERS DEVELOPED IN CORPORATIONS AND HOW THAT RELATES TO YOUR PROPOSAL.

COMMENTS ON THE DRAFT BILL

WE APPLAUD YOUR EFFORTS IN TAKING THE FIRST GIANT STEP TOWARDS ESTABLISHING AN UNDER SECRETARY FOR FINANCIAL MANAGEMENT IN THE DEPARTMENT OF THE TREASURY FOR DEVELOPING AN INTEGRATED GOVERNMENT-WIDE FINANCIAL MANAGEMENT SYSTEM, AND WE SUPPORT YOUR PROPOSAL WHOLE HEARTEDLY. IT IS A LONG-OVERDUE AND NECESSARY STEP, BUT WE BELIEVE THAT IT NEEDS TO GO A LITTLE FURTHER TO ENABLE THE UNDER SECRETARY TO OPERATE EFFECTIVELY AND TO ACHIEVE THE END RESULTS CONTEMPLATED IN YOUR PROPOSAL.

THE PRESENT ADMINISTRATION SHOULD BE PRAISED FOR GIVING MORE ATTENTION TO FINANCIAL MANAGEMENT MATTERS THAN ANY PRECEEDING ADMINISTRATION IN MODERN HISTORY AND FOR UNDERTAKING MANY SIGNIFICANT AND EXCELLENT PROJECTS. HOWEVER, THE NUMEROUS WORTHWHILE PROJECTS THAT THE ADMINISTRATION HAS INITIATED OR PLANS TO INITIATE WILL NOT BE COMPLETED IN THE NEXT EIGHTEEN MONTHS. IT IS THIS FINE PROGRAM AND MOMENTUM, COUPLED WITH THE ABILITY TO DEVELOP AND ENFORCE A LONG-RANGE PLAN, THAT NEED TO BE INSTITUTIONALIZED TO ASSURE CONTINUITY AND SUPPORT FOR A SUSTAINED, GOVERNMENT-WIDE FINANCIAL MANAGEMENT IMPROVEMENT EFFORT.

AT BEST, EVERY CHANGE IN ADMINISTRATIONS IS ACCOMPANIED BY A PERIOD OF DISRUPTION, INACTIVITY, LOSS OF INERTIA, AND CHANGES IN EMPHASIS, PRIORITIES AND DIRECTION. AT WORST, THERE IS A TOTAL DISREGARD FOR MANAGEMENT MATTERS. IT IS DIFFICULT FOR SOME OF US TO FORGET THAT, NOT TOO LONG AGO, THERE WAS SUCH A LOW INTEREST IN FINANCIAL MANAGEMENT THAT THE FINANCIAL MANAGEMENT FUNCTION, ALONG WITH CERTAIN OTHER MANAGEMENT ACTIVITIES, WAS LITERALLY "EXILED" FROM THE OFFICE OF MANAGMEMENT AND BUDGET TO THE GENERAL SERVICES ADMINISTRATION. IT TOOK AN ACT OF THE CONGRESS TO REVERSE THAT DECISION!

I MENTIONED THIS HISTORICAL INCIDENCE TO EMPHASIZE THAT A LEGISLATIVE AUTHORIZATION IS NEEDED TO ESTABLISH AN INSTITUTION THAT WILL (1) THINK ABOUT WHAT KIND OF FINANCIAL MANAGEMENT SYSTEMS WE NEED IN THE 1990'S AND BEYOND, (2) PREPARE A LONG-RANGE PLAN FOR THAT PURPOSE, AND (3) HAVE THE POWER TO CONTINUE TO ENFORCE ITS IMPLEMENTATION IN SPITE OF CHANGES IN POLITICAL LEADERSHIP THAT OCCUR FROM TIME TO TIME.

MECHANISM FOR "CONTINUITY" AND "CLOUT" -- THE ESSENTIAL INGREDIENTS: RECENTLY, AN ARTICLE I AUTHORED TITLED, "FEDERAL FINANCIAL MANAGEMENT REORGANIZATION -- POINTS TO PONDER", APPEARED IN THE GOVERNMENT ACCOUNTANTS JOURNAL WHICH, WITH YOUR PERMISSION, I WOULD LIKE TO SUBMIT FOR THE RECORD. IN THAT ARTICLE, I EMPHASIZED THE IMPORTANCE OF "CONTINUITY" AND "CLOUT", AMONG OTHER THINGS, AS BEING MANDATORY TO THE SUCCESS OF THE CENTRAL FINANCIAL MANAGEMENT "CZAR".

FOR THE PROPOSED LEGISLATION TO BE EFFECTIVE, WE BELIEVE THAT THE ISSUES OF "CONTINUITY" AND "CLOUT" NEED TO BE FULLY ADDRESSED AND STRENGTHENED.

ASSURING CONTINUITY: ONE STEP TOWARDS ASSURING CONTINUITY IS TO ESTABLISH THE TENURE OF THE UNDER SECRETARY THAT WOULD BE LONG ENOUGH TO ALLOW HIM/HER TO SET PRIORITIES, ESTABLISH SHORT AND LONG TERM OBJECTIVES, AND STILL HAVE AMPLE TIME TO ACHIEVE THEM. A TYPICAL POLITICAL APPOINTEE RARELY STAYS ON THE SAME JOB MORE THAN 20 MONTHS GIVING HIM/HER BARELY ENOUGH TIME TO BECOME FAMILIAR WITH THE OPERATION AND TO ACCOMPLISH QUICK FIXES AND SHORT-TERM ACHIEVEMENTS. WE NEED SOMEONE WHO WILL TAKE A LONGER VIEW OF THINGS AND STRIVE FOR LONG-TERM GOALS AND OBJECTIVES. AS A MINIMUM, WE BELIEVE THAT THE TENURE OF THE UNDER SECRETARY SHOULD BE STIPULATED IN THE LEGISLATION TO BE EIGHT OR TEN YEARS. ANOTHER ESSENTIAL THING THAT WILL ENHANCE CONTINUITY IS TO SELECT THE CANDIDATE FOR THE POSITION NOT SOLELY ON THE BASIS OF POLITICAL AFFILIATION, BUT MORE SO ON THE BASIS OF INTEGRITY AND DEMONSTRATED ABILITY. THAT PERSON SHOULD HAVE A PROVEN RECORD AS BEING A CONSENSUS BUILDER -- ADEPT AT HUMAN RELATIONS AND CAPABLE OF WORKING WELL WITH BOTH ELECTED AND CAREER OFFICIALS.

ASSURING CLOUT: WITH RESPECT TO CLOUT, THE UNDER SECRETARY MUST BE ABLE TO MAKE THINGS HAPPEN. HE/SHE MUST HAVE THE STRONG BACKING OF THE PRESIDENT AND THE CONGRESS. HE/SHE MUST HAVE A CLOSE WORKING RELATIONSHIP WITH THE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET, THE SECRETARY OF THE TREASURY AND THE COMPTROLLER GENERAL OF THE UNITED STATES. THEREFORE, IN ADDITION

TO THE FINANCIAL MANAGEMENT IMPROVEMENT COUNCIL PROPOSED IN THE BILL, IT MUST BE UNDERSTOOD THAT THERE IS A COOPERATIVE AND COORDINATING MECHANISM FOR THE CENTRAL AGENCY LEADERS. IN THIS MANNER, THE UNDER SECRETARY WILL BE ABLE TO PROCEED WITH THE CONFIDENCE THAT HE/SHE HAS THEIR FULL SUPPORT AND BLESSING.

ANOTHER EFFECTIVE WAY TO EXPRESS SUSTAINED SUPPORT AND UNYIELDING COMMITMENT TO THE UNDER SECRETARY WOULD BE TO PROVIDE HIM/HER WITH A MULTIPLE-YEAR, LINE-ITEM BUDGET FOR FINANCIAL SYSTEMS DEVELOPMENT PURPOSES FROM WHICH FUNDS WOULD BE DISTRIBUTED FOR USE BY DEPARTMENTS AND AGENCIES CONSISTENT WITH OVERALL, LONG-RANGE PLANS AND OBJECTIVES. NOT ONLY WOULD THE UNDER SECRETARY HAVE CONTROL OF THE PURSE STRING AND HENCE CLOUT, BUT HE/SHE, BY NECESSITY, BECOMES AN ACTIVE PARTICIPANT IN AGENCY PLANNING, BUDGETING, AND OVERSEEING THE DEVELOPMENT OF MODERN AND EFFECTIVE AGENCY FINANCIAL SYSTEMS. THROUGH THIS PROCESS, REDUNDANT DE-VELOPMENTAL EFFORTS CAN BE IDENTIFIED AND AVOIDED, INTERAGENCY COOPERATIVE EFFORTS CAN BE INITIATED AND SUSTAINED, CENTRALLY DIRECTED MODELS CAN BE DEVELOPED FOR MULTIPLE AGENCY USE, AND CONSISTENT AND COMPATIBLE FINANCIAL DATA CAN BE GENERATED THROUGHOUT THE GOVERNMENT. THE CLOUT USED IN THIS MANNER WOULD RESULT IN A MORE COST EFFICIENT AND EFFECTIVE MANNER IN MODERN-IZING FEDERAL EFFORTS TO IMPROVE, STREAMLINE AND MODERNIZE GOVERNMENT FINANCIAL MANAGEMENT.

CHIEF FINANCIAL OFFICER IN THE PRIVATE SECTOR

HISTORICAL DEVELOPMENT: THE EMERGENCE OF THE ROLE OF CHIEF FINANCIAL OFFICERS' (CFO) IN THE PRIVATE SECTOR HAS BEEN AN EVOLUTIONARY ONE IN RESPONSE TO THE GROWING SIZE AND COMPLEXITY OF CORPORATE ORGANIZATIONS AND THE INCREASING SPECIALIZATION AND IMPORTANCE OF THE FINANCIAL FUNCTION.

FOR THE MOST PART, THE EMERGENCE OF THE CFO IS A POST WORLD WAR II PHENOMENON THAT BECAME UNIVERSAL IN LARGER CORPORATIONS IN THE FIFTIES AND SIXTIES AND HAS NOW MOVED TO THE RANKS OF THE MORE MODEST SIZED FIRMS.

AS BUSINESS HAS EVOLVED INTO MORE COMPLEX ENTERPRISES WITH PROFESSIONAL MANAGEMENT, THE ROLE OF THE CHIEF EXECUTIVE HAS CHANGED RADICALLY. THE CHIEF EXECUTIVE OFFICER CAN NO LONGER BE THE INVENTIVE GENIUS, PRODUCTION MANAGER, CHIEF SALESMAN AND THE PRINCIPAL SOURCE OF CAPTIAL. THESE FUNCTIONS HAVE NOW BECOME DELEGATED WITHIN THE LINE AND STAFF ORGANIZATIONS BECAUSE ONE INDIVIDUAL CAN NOT CONTROL ALL THESE RESPONSIBILITIES. PARALLELLING THIS HAS BEEN THE CHANGE IN CHARACTER OF THE ROLE OF FINANCE IN MODERN BUSINESS.

AT ONE TIME THE CHIEF CONCERN OF FINANCE WAS THE KEEPING OF BOOKS IN A MONOLITHIC, REGIONAL ENTERPRISE WITH RELATIVELY SIMPLE FINANCING REQUIREMENTS. AS LONG AS THE ASSETS WERE PROPERLY COUNTED AND THERE WERE NO MAJOR FINANCING MISCALCULATIONS, THE FINANCIAL RESPONSIBILTIES WERE PROPERLY SERVED.

THE MODERN CORPORATION DEALS IN MANY TECHNOLOGIES AND PROCESSES SERVING A VARIETY OF MULTINATIONAL MARKETS. PRODUCT AND ECONOMIC CYCLES ARE SHARP AND ERRATIC AND FINANCIAL MARKETS ARE UNPREDICTABLE. WITHIN THE ORGANIZATION THE SCOPE AND COMPLEXITY OF DIVERSE OPERATIONS AND THE REQUIREMENT FOR INSTANTANEOUS INFORMATION HAVE DRAMATICALLY CHANGED THE NATURE AND FUNCTION OF FINANCIAL REPORTING AND CONTROL SYSTEMS.

FOSTERED BY THESE CHANGES, THE CFO HAS EVOLVED INTO A ROLE THAT ENCOMPASSES LINE, STAFF AND POLICY FUNCTIONS. THIS INDIVIDUAL MUST SERVE AS ADVISOR TO THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE, AND IS A MEMBER OF THE MOST SENIOR POLICY SETTING GROUP IN THE CORPORATION. THE CHIEF FINANCIAL OFFICER IS EXPECTED TO BE KNOWLEDGEABLE OF AND RESPONSIBLE FOR ALL ASPECTS OF THE FINANCIAL ORGANIZATION AND OPERATIONS OF THE CORPORATION. USUALLY, HE IS THE PRINCIPAL ARCHITECT OF THE FINANCIAL SYSTEMS AND CONTROLS. HE GENERALLY REPORTS TO THE CHIEF EXECUTIVE AND IS PRESENT AT ALL BOARD MEETINGS. THE NEED TO REPRESENT ALL OF THE DIVERSE FINANCIAL UNDERTAKINGS OF THE FIRM AND THE CENTRALIZATION OF CONTROL HAS LEAD TO THE IMPORTANCE OF THE OFFICE. THIS BASE AND THE CFO'S EXPERTISE PROVIDES THE EFFECTIVENESS AND AUTHORITY THAT THE RESPONSIBILITIES DEMAND.

FINANCIAL SYSTEMS DEVELOPMENT IN THE PRIVATE SECTOR: AT THIS STAGE IN THE DEVELOPMENT OF THE CORPORATE FORM, THE FOCUS UPWARD OF INFORMATION AND ADVICE TO THE POLICY LEVEL THROUGH THE CFO AND DOWNWARD IN PROMULGATION OF PROCEDURES AND ACTION ORDERS WORKS WELL IN THE FINANCIAL MANAGEMENT OF LARGE, COMPLEX PRIVATE SECTOR

ENTERPRISES. IT PROVIDES THE MEANS TO BRING TOGETHER THE RESOURCES OF THE ORGANIZATION AND TO COORDINATE AND CONTROL THE FINANCIAL ACTIVITY OF OFTEN WIDELY DIFFERENT OPERATIONAL REQUIREMENTS.

WE PROVIDED THIS BRIEF DESCRIPTION OF THE CFO IN THE PRIVATE SECTOR, NOT WITH THE THOUGHT THAT THE FEDERAL GOVERNMENT SHOULD ADOPT ANY ONE OF THE MANY PRIVATE SECTOR MODELS. ON THE CONTRARY, FEDERAL GOVERNMENT IS DIFFERENT IN SIZE, COMPLEXITY, DIVERSITY AND PURPOSE. IT MUST DECIDE ON WHICH ORGANIZATIONAL APPROACH TO TAKE BASED ON ITS OWN NEEDS. HOWEVER, THERE IS ONE AREA TO WHICH WE WOULD LIKE TO CALL YOUR ATTENTION. THAT IS THE AREA OF DEVELOPING UNIFORM, COMPATIBLE FINANCIAL MANAGEMENT SYSTEMS. OF ALL THE COMPANIES I HAVE BEEN RECENTLY EXPOSED TO, THE AUTHORITY AND RESPONSIBILITY FOR FINANCIAL SYSTEMS TEND TO BE CENTRALIZED AND PLACED IN A VERY HIGH LEVEL IN THE CORPORATE STRUCTURE EVEN IN DIVERSIFIED, MULTI-NATIONAL CORPORATIONS.

THESE CORPORATIONS, THROUGH THE CENTRALIZED APPROACH, HAVE SUCCESSFULLY PROVIDED MANAGERS AT ALL LEVELS MORE TIMELY, ACCURATE USEFUL, CONSISTENT AND COMPATIBLE INFORMATION WITH MORE COST-EFFICIENT AND EFFECTIVE PROCESSES. THE APPROACHES MAY DIFFER AS TO THE DEGREE OF CENTRALIZATION, I.E., THE CENTRALIZATION OF INFORMATION REQUIREMENTS AND STANDARD SETTING, CENTRALIZATION OF SYSTEM DESIGN TO BE USED AT MULTIPLE LOCATIONS, AND CENTRALIZATION OF DESIGN AND OPERATIONS OF THE FINANCIAL AND INFORMATION SYSTEMS. NEVERTHELESS, THE UNDERLYING COMMON DEMONINATOR IS THE EXISTENCE OF A CENTRAL, LONG-RANGE PLANNING FUNCTION AND CENTRAL ENFORCEMENT MECHANISM TO ACHIEVE THE DESIRED, ULTIMATE SYSTEM.

WE BELIEVE THAT THE CENTRALIZATION OF FINANCIAL SYSTEMS DEVELOPMENT RESPONSIBILITY, AUTHORITY AND STAYING POWER HAS WORKED WELL IN THE PRIVATE SECTOR. WE ALSO BELIEVE THAT, GIVEN THE PROPER AUTHORITY AND MANDATE, IT WILL WORK WELL IN THE GOVERNMENT.

SUMMARY

IN CONCLUSION, WE AGAIN APPLAUD YOUR EFFORT IN ATTEMPTING TO TAKE THE LONG, OVER DUE GIANT STEP IN INTEGRATING, STREAMLINING AND MODERNIZING THE FINANCIAL MANAGEMENT SYSTEMS, AND WE WHOLE-HEARTEDLY SUPPORT YOUR PROPOSAL. HOWEVER, WE STRONGLY URGE YOU TO CONSIDER STRENTHENING THE UNDER SECRETARY'S POSITION TO PROVIDE MORE CONTINUITY AND CLOUT IN THE BILL. THEN, THE STEP YOU ARE ABOUT TO TAKE WILL BE CONSISTENT WITH THE SUCCESSFUL APPROACHES OF THE PRIVATE SECTOR, BUT MORE IMPORTANTLY, IT WILL ASSURE THE SUCCESS OF THE UNDER SECRETARY FOR FINANCIAL MANAGEMENT.

WE APPRECIATE THIS OPPORTUNITY TO EXPRESS OUR REACTIONS TO AND OVERALL SUPPORT FOR THE DRAFT BILL. I WILL BE DELIGHTED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

STATEMENT OF EDWARD J. HALLER
FEDERAL FINANCIAL MANAGEMENT REFORM ACT OF 1987
JULY 23, 1987

Mr. Chairman, my name is Edward J. Haller. I am a partner in the Office of Government Services of the firm of Price Waterhouse. I appreciate this opportunity to appear on behalf of Price Waterhouse to comment on the proposed Federal Financial Management Reform Act of 1987. Improvement of federal government financial management is an issue of utmost concern, and we commend you for making it a high priority of the Governmental Affairs Committee.

Price Waterhouse has long supported the establishment of a Chief Financial Officer for the federal government to fill what we have recognized as the "leadership void" in federal government financial management. Leadership is clearly the most important issue confronting those of us working for financial management reform, and your proposal for an Under Secretary of the Treasury for Financial Management and a study of the proper organizational placement for the leadership function indicates that you have similar views.

We feel that your proposal is a step in the right direction in establishing the required leadership. As the legislation is currently drafted, however, the responsibilities of the Under Secretary for Financial Management appear to be limited largely to the development of integrated, governmentwide financial management systems, and I emphasize the word systems. We believe that effective financial management leadership calls

for a much broader definition of financial management and thus a significantly expanded scope of responsibilities for the CFO.

We would define financial management as encompassing not only financial systems, but:

- Financial policies
- Financial procedures
- Financial planning
- Financial controls, and
- Financial reporting.

Accordingly, the scope of responsibilities of the CFO should include the following:

- Acting as principal advisor to the President and Congress on financial management policies, procedures and methods, including approaches to utilizing financial information to more effectively manage the activities and operations of the government.
- Providing policy and procedural guidance, central direction, and monitoring of executive agencies and departments in the management and control of financial activities and operations, and related financial reporting.
- Fostering the development of long-range, strategic financial planning which encompasses such areas as system enhancements, staffing requirements, technology improvements, required legislative actions, financial management objectives, information requirements and budget priorities.
- Coordinating and monitoring the development of executive agency accounting and financial management systems for the purpose of establishing compatibility among such systems and ensuring compliance with accounting principles and systems and control standards prescribed by the General Accounting Office, the Office of Management and Budget, and the Office of the CFO.

- o Keeping the President and Congress fully informed regarding the federal government's financial position and results of operations; financial management condition; and financial management resource requirements on both a short and long-term basis.

- o Supervising the maintenance of the central accounting and reporting records of the federal government.

- o Establishing governmentwide qualifications standards and training programs to ensure that executive agency financial management positions are filled by appropriately skilled and committed individuals.

The CFO will be, in a word, the federal government's financial management leader--the individual principally responsible for the accountability and safeguarding of government resources.

With that responsibility should go the authority to do whatever is necessary to get the job done--be it strategic planning; promulgation of policies and procedures; personnel recruitment, development and motivation; adoption of the latest in financial management methodology and technology; and acting as an inspiration or, if need be, a thorn in the side.

The remainder of my testimony focuses on the subject of the authority of the CFO, and is divided into two parts. The first relates to some specific concerns about the authority of the proposed Under Secretary of Financial Management. The second will deal with the structure and content of the study called for in Section 8.

Will the Under Secretary Have Enough "Clout"?

In hearings last year on Sen. Roth's omnibus financial management improvement bill, S.2230, Sen. Thomas Eagleton raised the

question of how the CFO proposed in that legislation could be given the "clout" or authority to ensure that financial management reforms were actually implemented by departments and agencies rather than just given lip service. That question is equally appropriate with respect to this legislation. Does the proposed Under Secretary have enough authority to carry out designated responsibilities? (Incidentally, it is the issue of "clout", among others, that has led us consistently to the preference for the creation of an independent financial management agency within the Executive Office of the President.)

There are several approaches in your proposal--which we support--to establish "clout," for example:

- Annual reporting to Congress on progress in implementing the systems development plan;
- The discipline of audited financial statements; and
- The required certification that agency budget requests are based on information produced by systems that are in compliance with GAO standards.

But in our opinion these are not enough. Let me comment on some of our concerns:

- First, there is no tenure of office stipulated for the Under Secretary. We can only assume that this will be a political appointment made at the pleasure of the President. Although the scope of responsibility cited in the legislation is more limited than we would prefer, it still constitutes a complex, long-term assignment. It cannot be accomplished without continuity of leadership. We have suggested that the federal government's Chief Financial Officer be appointed for at least an eight or ten year term. Ideally, we believe the term should be fifteen years--commensurate with that of the government's Chief Auditor, the Comptroller General. Certainly the nature and complexity of the responsibilities

involved are similar, as is the need for independence from the political process.

- Second, there is no linkage of authority between the Under Secretary and the agency CFOs except through the Financial Management Improvement Council. Considering this tenuous relationship, it is difficult to see how there can be any consistency among agency financial management improvements or compliance with governmentwide objectives. The Under Secretary must have some authority over agency CFOs--for example, a dotted line reporting relationship, and preferably a voice in their selection, appointment, evaluation and, if necessary, removal.

- We also feel it would be beneficial to create a line item budget for financial management for each agency, which would be subject to the review and approval of the Under Secretary. While OMB would negotiate with the Under Secretary for governmentwide resources, agency allocations would be negotiated strictly between the Under Secretary and each agency head. Otherwise, we see an endless struggle for sufficient funds for financial management purposes and petty bickering over financial management priorities--just as we have now.

We have some other specific concerns:

- First, there is no appointment process or term of office specified for agency CFOs. Simply "designating" a CFO in each agency, especially if there is no provision for stronger central guidance and support, would simply institutionalize the status quo--that is, glaring inconsistencies among agencies as to the status and support accorded to lead financial management personnel.

- Second, we note that the mandate for agency CFOs is much broader than that for the Under Secretary. This, plus the lack of central authority and their being accorded the title "CFO" rather than "Controller", would seem to suggest a bias in favor of decentralized financial management leadership. We would certainly have major reservations about this legislation if that is the case. If the Under Secretary is meant to be the financial management leader, the position's responsibilities should parallel and be integrated with those of agency CFOs. Ideally, the CFO's "position description" should encompass all the responsibilities I described earlier in my statement.

- Third, there should be a CFO in every executive agency and department, not just the twenty-two listed in the bill. Financial management needs are not determined by size.

Issues to be Considered in Study

Let me now turn to a discussion of the study to assess the future organizational placement of governmentwide financial management leadership which is authorized in Section 8 of the legislation.

I am sure we all have mixed feelings about government studies. They are frequently alleged to have little impact, and are often viewed as a convenient way to bury a sensitive issue. In this case, however, I believe the recommended study will contribute significantly to the process of instilling financial management leadership in the federal government.

This study is so important that I urge that more attention be given in the legislation to defining the structure of the study panel and the agenda of issues to be considered.

I recommend that the panel be chaired and staffed by acknowledged financial management leaders from the public and private sectors, and that appointments to the panel be jointly shared by Congress and the President.

The study panel should be composed of:

- Members of Congress
- The Comptroller General of the United States
- A representative of the Treasury Department
- A representative of the Office of Management and Budget

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- A ranking academician in governmental financial management
- A corporate CFO
- A representative from a private sector financial management organization such as the Financial Executives Institute
- A representative from a public sector financial management organization such as the Government Finance Officers Association
- Representatives of the Financial Accounting Standards Board and the Governmental Accounting Standards Board.

As to the study agenda, I strongly urge that it go beyond the issue of organizational placement to include the scope of responsibilities of the CFO and the difficult question of how to give the CFO "clout."

I would recommend that the study panel's mandate be expanded to address the following specific points:

- Tenure and compensation
- Authority over department and agency controllers
- Control over allocation of financial management resources (budget)
- The agency controller appointment process
- The complexity of CFO and agency controllership responsibilities; and
- The need for a controller in each executive agency.

Thank you, Mr. Chairman, for the privilege of presenting our views on this exceedingly important and timely issue.

ROLAND W. BURRIS

COMPTROLLER

STATE OF ILLINOIS

Mr. Chairman, Members of the Committee, I am pleased to appear before you today. Many of us in the financial community have worked for years to call attention to the need for improved financial management at the federal level. With all of the crucial and newsworthy issues before Congress, this may not be the most riveting of topics, but it certainly is an important one. I want to congratulate you for your foresightedness in conducting this hearing and for introducing the "Federal Financial Management Reform Act of 1987."

My interest in federal financial management grows out of my experience as a state chief financial officer and past president of the National Association of State Auditors, Comptrollers and Treasurers. As the Illinois State Comptroller, my office has been in the forefront of developing a model state accounting system guaranteeing budget consistency between state agencies, a reduction in the amount and cost of financial data collecting, better agency performance evaluation and improved state financial reporting to the taxpaying public. For these efforts, the Illinois Comptroller's Office was awarded the Certificate of Achievement - an accounting honor rarely received by a state fiscal control agency. Illinois is not alone among our individual states in successfully rationalizing state financial budgeting and planning; most state accounting operations have, more or less, done the same thing.

For instance, most state comptrollers promulgate state accounting principles, develop a comprehensive accounting manual, prepare statewide financial statements and maintain a centralized accounting system. In general, most state accounting systems are characterized by a high degree of centralization that enables state comptrollers to keep track of state receipts and expenditures and to produce accurate, audited information about their

state's financial condition.

As U.S. Comptroller General Charles Bowsher has repeatedly explained, the federal government, on the other hand, has over 450 accounting systems, and functions exercised by most state comptrollers are scattered among various agencies when carried out at the federal level. Further, federal agencies are not following uniform accounting standards and most financial information is unaudited. As a result, financial reporting practices do not permit effective comparison of actual costs to the budget and do not disclose the financial condition of the federal government.

It should be noted that Mr. Bowsher and others have made serious efforts to improve federal financial management. Certainly, Congressional interest and action has helped them in their cause, and your legislation, Mr. Chairman, would be a solid first step in improving federal financial management.

A Solid First Step

Your bill recognizes the void in financial management leadership at the federal level and calls for the creation of a central figure, the Under Secretary for Financial Management within the U.S. Treasury. Your bill takes the essential step of requiring that the federal government "plan its work and work its plan," by requiring the Under Secretary for Financial Management to develop a plan for an integrated financial management system. I am encouraged to see that you require the Under Secretary's plan to ensure that all executive agency systems produce consistent, compatible and useful financial data and to integrate agency financial systems. I applaud these initial steps, for without them, other efforts would be in vain. I also appreciate your foresightedness in recognizing the need for the development of a methodology to define federal agency assets and liabilities, and for the desirability of requiring agency

financial statements, and financial audits, based this methodology.

The National State Auditors Association recently adopted a resolution calling on the federal government to adopt a defined set of accounting principles that will be uniform for all federal agencies. The resolution also recognized the importance of appropriately depicting assets and liabilities by specifying that federal accounting principles should not permit balances in the Social Security Trust Fund or other dedicated funds to be used in making the federal deficit appear smaller. As General Bowsher has said, we are "drugging ourselves on Social Security valium." In fiscal year 1986 alone, current federal accounting practices for Social Security artificially lowered the deficit by almost $70 billion - from $290 to $221 billion.

In commenting further on the bill before us, I want to add that I am glad to see that it creates chief financial officers within federal agencies. This is a good step. I hope that some degree of responsibility to the Under Secretary for Financial Management can be established, however, and I will touch on this in more detail later.

There is another portion of your bill that I think is worth singling out for comment because it addresses an issue that is too often overlooked. This is the portion directing agency chief financial officers to recruit, select and train agency financial management personnel. This kind of central control and emphasis within agencies will help assure that the federal government is able to place qualified people in positions dealing with financial management.

Next Steps

As I mentioned, I support the creation of agency chief financial officers. They are given a fitting title, and I would like to see the title extended to the Under Secretary for Financial Mangement. This would help establish a clear

link between the central figure for all federal financial managment, and the agency CFOs. It is important to establish this link to help endow the Under Secretary, or the CFO, as I would call the position, with some clout.

This clout could be further established by employing a mechanism similar to one that is already at the disposal of the Secretary of the Treasury. Under Section 3720 of Title 31 of the U.S. Code, the Secretary of the Treasury is authorized to collect a penalty from any agency that does not collect and deposit funds owed to it in a timely manner. Under your bill, the Under Secretary is given the authority to certify all statements of accounting compliance that are prepared by agency CFOs. This provision could be extended to authorize the Secretary, or the Under Secretary, to fine an agency CFO who did not use systems in conformance with applicable accounting standards. This added bit of authority would provide Treasury with important leverage to help assure that agency financial systems are integrated.

There is another question, closely related to clout, that I would like to raise. This is the question of placement. I have long supported an independent CFO, and, for years, many of us in the financial community have struggled with the question of placement. I realize that, on one hand, the chief financial manager of our government might be able to function best if the position were part of the President's "team," and part of the the inner circle of power. On the other hand, being part of the "team," could limit the position's independence and ability to call shots as they are seen, so to speak. Almost by definition, if you are part of the "team," you are not independent. This is a crucial question. It is also a difficult question. Personally, I have always thought the position should be modeled after the Comptroller General, with the independence and benefits package that goes with it. However, I realize this

crucial question must be resolved in a way that has the support of the financial and political community in Washington. I will do whatever I can to facilitate the work of a study group on this issue, as is called for in your bill. If a study is conducted, I would urge that it also review options for giving the CFO, or the Under Secretary, a term. A term would help protect the position from a possible "shoot the messenger" syndrome, if a bad message about the financial condition of the federal government had to be delivered.

I note that you call for the creation of a Financial Management Improvement Council. Certainly, there is a need for officials in GAO, OMB and the agencies, to advise the Under Secretary on the financial management plan, as called for in your bill. I advocate the creation of a Federal Finance Council, but believe that it should be comprised of officials at the highest level - including the Secretary of the Treasury, the Directors of OMB and CBO, and the Comptroller General. It simply seems logical to have all of the highest-level financial management officials meet periodically. One possible approach might be to include in your bill a requirement that the Under Secretary meet with these high-level officials on regularly prescribed basis to discuss progress in implementing the "plan" and on other issues raised by the Council, as currently constituted in your bill.

I would like to add a note of caution about the level of staff authorized for the Under Secretary's operation. While I realize you do not want to create another bureaucracy, it is possible that existing personnel in other agencies or other sections of Treasury might be transferred to the Under Secretary's office. Placing an artificial cap on the number of people that the Under Secretary can hire might hinder the office's efficient operation.

Finally, there are a number of functions I would hope the Under Secretary,

or the federal CFO, could assume at some point in the future. These include:

- developing financial software and hardware computer standards for the federal government;

- keeping of fund, receipt and appropriation account balances, as reported by federal agencies;

- recommending to the President, the Congress and executive branch entities methods, practices and procedures relating to the collection, distribution, and evaluation of financial information;

- ensuring that the President, the Secretary of the Treasury, and the Congress are kept fully informed about the financial condition of the federal government and the state of financial management within the federal government, including the effect of improvements made and the status of changes in progress;

- establishing, in consultation with the Office of Personnel Management, government-wide personnel qualifications and job descriptions for all Executive agency financial management positions; and

- maintaining contact with the financial officers of state and local governments and fostering the sharing of information concerning financial management standards, techniques and processes.

In conclusion, Mr. Chairman, I want to confirm my support for your bill as a solid first step toward improving financial management at the federal level. I appreciate the opportunity to appear before you and want to thank you for your commitment to improved government operations.

ASSOCIATION OF GOVERNMENT ACCOUNTANTS
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July 21, 1987

The Honorable John H. Glenn
Chairman, Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman

Enclosed is a copy of our testimony which we plan to present before your Committee on July 23, 1987. We appreciate the opportunity to present our views on the "Federal Financial Management Reform Act of 1987."

I have asked Mr. Joseph J. Donlon to represent the Association and present our views. Mr. Donlon is a long time member of AGA and served on the Association's task force which studied the critical issue of strengthening financial management leadership in the federal government. A copy of the task force report is attached.

The Association looks forward to presenting its views on your Committee's proposed Bill. Please let us know if we can be of further assistance.

Sincerely yours,

Donald E. Kirkendall
National President

Enclosures:
(1) Prepared statement before the U. S. Senate Committee on Governmental Affairs

(2) A report titled, "Strengthening Controllership in the Federal Government - A Proposal

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

THE ASSOCIATION OF GOVERNMENT ACCOUNTANTS APPRECIATES THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY ON THE PROPOSED BILL ENTITLED "FEDERAL FINANCIAL MANAGEMENT REFORM ACT OF 1987." MY NAME IS JOSEPH J. DONLON, AND I AM APPEARING BEFORE YOU TODAY AS A LONG-TIME MEMBER OF THE ASSOCIATION OF GOVERNMENT ACCOUNTANTS (AGA), A PROFESSIONAL ORGANIZATION OF APPROXIMATELY 12,000 INDIVIDUALS ENGAGED IN GOVERNMENTAL ACCOUNTING, AUDITING, BUDGETING, AND INFORMATION SYSTEMS. WE ARE PROUD TO INCLUDE AMONG OUR MEMBERSHIP A GOOD NUMBER OF THE SENIOR FINANCIAL MANAGERS, INSPECTORS GENERAL, AND AUDITORS IN THE FEDERAL GOVERNMENT AS WELL AS MANY STATE AND LOCAL GOVERNMENT LEADERS.

I HAVE SERVED AS A SENIOR GROUP DIRECTOR IN THE FINANCIAL POLICY AND SYSTEMS AREA OF THE UNITED STATES GENERAL ACCOUNTING OFFICE AND HAVE EXTENSIVE EXPERIENCE WITH THE FINANCIAL MANAGEMENT AND REPORTING PRACTICES OF THE FEDERAL GOVERNMENT. HOWEVER, I AM APPEARING HERE TODAY IN MY CAPACITY AS A MEMBER OF AGA.

MY MEMBERSHIP IN AGA HAS GIVEN ME NUMEROUS OPPORTUNITIES TO SERVE THE GOVERNMENT FINANCIAL MANAGEMENT COMMUNITY IN POSITIONS RANGING FROM AGA'S WASHINGTON CHAPTER PRESIDENT AND NATIONAL EDUCATION BOARD CHAIRMAN TO MEMBERSHIP ON A TASK FORCE CREATED IN NOVEMBER 1983 TO EXAMINE FINANCIAL MANAGEMENT IN THE FEDERAL GOVERNMENT. THE WORK OF THIS TASK FORCE IS CLOSELY RELATED TO THE PROPOSED "FEDERAL FINANCIAL MANAGEMENT REFORM ACT OF 1987," AND IT IS THE RESULTS OF THIS TASK FORCE STUDY THAT WE IN THE ASSOCIATION OF GOVERNMENT ACCOUNTANTS WOULD LIKE TO DISCUSS WITH YOU TODAY.

FIRST, THE ASSOCIATION WOULD LIKE TO EXPRESS ITS SUPPORT OF THE GENERAL INTENT AND DIRECTION OF THE PROPOSED BILL. WE BELIEVE IT IS A BIG STEP IN THE RIGHT DIRECTION AND ARE PLEASED TO SEE MANY OF THE FEATURES SUPPORTED BY AGA OVER THE PAST FEW YEARS INCLUDED IN THE PROPOSED

LEGISLATION. HOWEVER, WE IN AGA BELIEVE THAT THE ESTABLISHMENT OF A STRONGER FINANCIAL MANAGEMENT FUNCTION IN THE FEDERAL GOVERNMENT SHOULD GO A BIT FURTHER THAN THE PROPOSED BILL IN THE AREAS OF THE:

(1) TENURE OF SUCH CONTROLLER POSITIONS,

(2) SPECIFIC QUALIFICATIONS FOR APPOINTMENT,

(3) DUAL REPORTING RELATIONSHIPS, AND

(4) A FORMAL CAREER PATH.

WITH YOUR PERMISSION, I WOULD LIKE TO PROVIDE THE COMMITTEE WITH SOME BACKGROUND AND DISCUSS THESE ADDITIONAL FEATURES WHICH ARE INCLUDED IN THE AGA TASK FORCE REPORT PUBLISHED IN 1985.

IN NOVEMBER 1983, THE ASSOCIATION OF GOVERNMENT ACCOUNTANTS APPOINTED A TASK FORCE TO EXAMINE WAYS TO IMPROVE FINANCIAL MANAGEMENT IN THE FEDERAL GOVERNMENT. THIS INITIATIVE HAS BEEN AN EXAMPLE TO MANY OTHERS IN THE LAST THREE AND A HALF YEARS.

THE MISSION OF THE AGA TASK FORCE WAS TO EXAMINE THE EXISTING FINANCIAL MANAGEMENT PROCEDURES AND PRACTICES OF THE FEDERAL GOVERNMENT IN ORDER TO DETERMINE WAYS IN WHICH FEDERAL RESOURCES COULD BE BETTER USED TO MEET THE CHALLENGE OF PLANNING, ACCOUNTING FOR AND REPORTING ON THE FINANCIAL ACTIVITIES OF THE FEDERAL GOVERNMENT. OUR RESEARCH LED TO THE RECOMMENDATION, IN 1985, OF A "FEDERAL CONTROLLERSHIP ACT," MANDATING THAT THE EXECUTIVE BRANCH ESTABLISH AN OFFICE OF THE CONTROLLER WITH GOVERNMENTWIDE RESPONSIBILITY FOR INTEGRATING ALL FINANCIAL MANAGEMENT POLICIES, PROCEDURES AND PRACTICES.

THESE RECOMMENDATIONS WERE REACHED AFTER EXAMINING 50 YEARS OF PRESIDENTIAL AND CONGRESSIONAL COMMISSIONS, EXECUTIVE ORDERS, GOVERNMENTWIDE CIRCULARS, AND THE SCORES OF LAWS AND REGULATIONS THAT WERE NOT HEEDED OR ENFORCED. IT IS INTERESTING TO NOTE THAT OVER THE YEARS, MANY PUBLIC AND PRIVATE COMMISSIONS INVESTIGATING FEDERAL GOVERNMENT ACCOUNTING PRACTICES HAVE REPORTED THAT THE FINANCIAL AND REPORTING

SYSTEMS OF THE UNITED STATES ARE INADEQUATE, UNRELIABLE AND UNTIMELY. IN MANY INSTANCES, PAST IMPROVEMENT EFFORTS MERELY ADDED NEW REQUIREMENTS TO OLD, WITH LITTLE OR NO CONCERN FOR THE INTERRELATIONSHIP OF ANY ORGANIZATIONAL AND PROCEDURAL MANAGEMENT ISSUES. IN ALMOST ALL CASES, ALL OF THESE INITIATIVES LACKED THE FINANCIAL RESOURCES AND THE CRITICAL PERSONNEL COMMITMENT TO TRULY MAKE SOMETHING HAPPEN.

AS WAS ALSO APPARENT, MOST RECENTLY, TO THE GRACE COMMISSION, NO ONE AGENCY OR PERSON IS CLEARLY RESPONSIBLE FOR DEVELOPING AND COORDINATING FINANCIAL MANAGEMENT POLICY AND FOR PROVIDING CONTINUAL CENTRAL LEADERSHIP IN THE FEDERAL GOVERNMENT.

IT WAS THE OVERALL CONCLUSION OF THE AGA STUDY GROUP THAT THE IMPROVEMENTS IN FEDERAL FINANCIAL MANAGEMENT WOULD ONLY COME WHEN RESPONSIBILITY FOR THIS IMPORTANT FUNCTION WAS FIXED -- BOTH GOVERNMENTWIDE AND IN EACH AGENCY AND DEPARTMENT. IT IS APPARENT THAT THE DRAFTERS OF THE PROPOSED "FEDERAL FINANCIAL MANAGEMENT REFORM ACT OF 1987" REACHED THE SAME CONCLUSION. ALL OF THE PAPER THROWN AT THE PROBLEM -- LAWS, STUDIES, REPORTS, CIRCULARS, AND ON AND ON -- FAILED TO ADDRESS THE BASIC ISSUE. THE BASIC ISSUE IS THE STATUS, AUTHORITY, TENURE, AND RESOURCES GIVEN TO THE PERSONNEL WHO MUST PERFORM THE FINANCIAL MANAGEMENT FUNCTION, DAY IN AND DAY OUT. THERE HAS TO BE SOMEONE TO BLAME WHEN THINGS GO WRONG -- OR DON'T HAPPEN.

THE TASK FORCE BEGAN BY IDENTIFYING SEVERAL CIRCUMSTANCES THAT MADE THE STUDY NECESSARY AND THAT INDICATED A NEED FOR CONTROLLERSHIP IN THE FEDERAL GOVERNMENT:

- EXCESSIVE DECENTRALIZATION: THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950 SANCTIONED THE CREATION OF SEPARATELY DEVELOPED ACCOUNTING SYSTEMS WITHIN EACH AGENCY. FOR NEARLY FOUR DECADES EACH FEDERAL AGENCY HAS BEEN RESPONSIBLE FOR DETERMINING ITS OWN NEEDS AND DEVELOPING ITS OWN INTERNAL

ACCOUNTING SYSTEM. AT THE TIME OF OUR STUDY, OVER THREE HUNDRED ACCOUNTING SYSTEMS WERE IN USE AT THE FEDERAL LEVEL. THE AVERAGE COST OF ISSUING A PAYROLL CHECK VARIED FROM TWO TO FOURTEEN DOLLARS DEPENDING UPON WHICH OF THE ONE HUNDRED PAYROLL SYSTEMS WAS BEING USED. FEDERAL FINANCIAL MANAGEMENT EVOLVED IN A WAY THAT CERTAIN CENTRAL RESPONSIBILITIES WERE SHARED BY TREASURY, GAO, OMB, GSA, OPM, BUT NO ONE WAS TO BLAME IF IT DID NOT HAPPEN. OTHER RESPONSIBILITIES SIMPLY "FELL THROUGH THE CRACKS." GAO HAD THE CENTRAL AUTHORITY FOR APPROVING ACCOUNTING SYSTEMS, BUT NO ORGANIZATION HAD THE DIRECT RESPONSIBILITY FOR SYSTEM' DESIGN OR OPERATION. FURTHER, THE DISPERSION OF ACCOUNTING AND REPORTING RESPONSIBILITIES IMPEDED THE INTRODUCTION OF THE MODERN COMPUTER OPERATIONS THROUGHOUT THE FEDERAL GOVERNMENT. IT IS TRUE THAT MANY POSITIVE STEPS HAVE BEEN TAKEN OVER THE PAST FEW YEARS TO RESOLVE THE STATED PROBLEMS, BUT AGA FIRMLY BELIEVES THAT THE PROCESS SHOULD BE MADE MORE EFFECTIVE BY ESTABLISHMENT OF THE PERMANENT MEASURES ENVISIONED IN THE PROPOSED LEGISLATION.

- ABSENCE OF CONSISTENT ACCOUNTING PROCEDURES: NOT SURPRISINGLY, THIS DECENTRALIZED FINANCIAL NETWORK DOES NOT CURRENTLY ALLOW FOR EASY INTERCHANGE OF INFORMATION AND ANALYSIS BETWEEN AGENCIES. INCONSISTENT AND DIVERSE ORGANIZATIONAL FINANCIAL POLICIES, PROCEDURES, PRACTICES, AND SYSTEMS AT DEPARTMENTAL AND AGENCY OFFICE LEVELS PRECLUDE UNIFORM REPORTING AND MEASURING OF ACTIVITIES AND EXPENDITURES OF FEDERAL ORGANIZATIONS.

- INTERNAL CONTROLS REQUIRE INCREASED EMPHASIS: THROUGHOUT THE 1970s AND THE 1980s, GAO, INSPECTORS GENERAL, CONGRESSIONAL INVESTIGATORS, AND THE NEWS MEDIA HAVE HIGHLIGHTED AND DOCUMENTED MANY, MANY CONTROL VIOLATIONS, BREACHES, AND GAPS. CONGRESS EVEN PASSED AN ACT -- THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982, AND OMB ISSUED SEVERAL CIRCULARS AND GAVE CONTROLS A HIGH PRIORITY. THIS EMPHASIS MUST CONTINUE REGARDLESS OF THE PARTY OR PARTICULAR PERSON IN OFFICE AND WE BELIEVE IT NEEDS EFFECTIVE AND MORE PERMANENT LEADERSHIP.
- FRAGMENTATION OF RESOURCES AND RESPONSIBILITIES: SO MANY LAYERS OF PERSONNEL AND PROCESSES, BOTH MANUAL AND AUTOMATED, SURROUND ANY GIVEN TRANSACTION IN GOVERNMENT THAT THE INDIVIDUAL MANAGER LOSES ANY SENSE OF PERSONAL RESPONSIBILITY FOR THE OUTCOME. THIS ULTIMATELY LEADS TO CONFUSION AND AMPLE OPPORTUNITY TO "PASS THE BUCK."

THESE FACTORS AND OTHERS LED THE AGA TO CONCLUDE THAT LEGISLATION WOULD BE THE MOST EFFECTIVE WAY TO BRING ABOUT NEEDED IMPROVEMENTS. THEREFORE, A TASK FORCE REPORT WAS PREPARED WITH PROPOSED LEGISLATION THAT INCLUDED MANY OF THE MEASURES FEATURED IN THE CURRENT SENATE BILL. THE ASSOCIATION'S STUDY OF FEDERAL CONTROLLERSHIP RECOMMENDED THAT:

- THE EXECUTIVE BRANCH SHOULD ESTABLISH THE POSITION OF CONTROLLER OF THE UNITED STATES WITH GOVERNMENTWIDE RESPONSIBILITY FOR ASSURING THAT THE MANY DEPARTMENTS, AGENCIES AND OFFICES OF THE FEDERAL GOVERNMENT UNIFORMLY AND CONSISTENTLY PERFORM THE FINANCIAL MANAGEMENT FUNCTION;
- THE CONTROLLER SHOULD BE APPOINTED WITHOUT REGARD TO POLITICAL AFFILIATION AND SOLELY ON THE BASIS OF INTEGRITY AND DEMONSTRATED ABILITY IN ACCOUNTING, BUDGET EXECUTION, FINANCIAL ANALYSIS,

AUDITING, SYSTEMS DEVELOPMENT, PUBLIC ADMINISTRATION, OR MANAGEMENT ANALYSIS;

- THE CONTROLLER SHOULD BE APPOINTED FOR A PERIOD OF EIGHT YEARS AND BE REMOVABLE FROM OFFICE IN THE SAME MANNER AND FOR THE SAME REASONS AS THE COMPTROLLER GENERAL OF THE UNITED STATES;
- THE FUNCTIONAL RESPONSIBILITIES OF THE CONTROLLER SHOULD INCLUDE COORDINATING AND MONITORING THE DEVELOPMENT OF EXECUTIVE AGENCY ACCOUNTING, REPORTING AND FINANCIAL MANAGEMENT SYSTEMS TO ESTABLISH PARITY AMONG SUCH SYSTEMS AND TO ENSURE CONSISTENCY IN APPLYING PRINCIPLES, STANDARDS, PROCEDURES, AND PRACTICES GOVERNMENTWIDE;
- EACH DEPARTMENT, AGENCY, AND OFFICE OF THE FEDERAL GOVERNMENT SHOULD ESTABLISH AN ASSISTANT SECRETARY-CONTROLLER OR CONTROLLER POSITION WITH FINANCIAL MANAGEMENT DUTIES, RESPONSIBILITIES, AND AUTHORITIES UNIFORMLY DEFINED AND FIXED FOR EACH OF THESE FEDERAL ORGANIZATIONS;
- THE QUALIFICATIONS FOR APPOINTMENT TO THESE POSITIONS SHOULD BE THE SAME AS THOSE FOR CONTROLLER OF THE UNITED STATES AND THE TERM OF APPOINTMENT FOUR YEARS. INCUMBENTS MAY BE REMOVED FROM OFFICE PRIOR TO EXPIRATION OF SUCH TERM ONLY FOR DISABILITY OR SERIOUS OFFENSE.
- THE CONTROLLERS SHOULD BE RESPONSIBLE FOR REPORTING TO THE CONTROLLER OF THE UNITED STATES, THE HEAD OF THEIR AGENCY AND THE CONGRESS.
- THE CONTROLLERS MUST HAVE A WELL-DEFINED CAREER PATH TO INSURE A CONTINUAL SOURCE OF COMPETENT, TRAINED, AND EXPERIENCED FINANCIAL MANAGERS TO CARRY OUT THE BUSINESS OF GOVERNMENT;
- COMPENSATION FOR THE CONTROLLER OF THE UNITED STATES AND THE AGENCY CONTROLLERS MUST BE GENEROUS -- THE MAXIMUM PERMITTED BY LAW.

BETTER ACCOUNTABILITY IS CRITICAL. WITH THE NATIONAL DEBT IN EXCESS OF $1 TRILLION, AND ANNUAL INTEREST COSTS IN EXCESS OF $100 BILLION, PLUS SHRINKING REVENUES AND EXPENDITURES THAT WON'T SHRINK, THE FEDERAL MANAGER'S PERSONAL COMMITMENT TO USING RESOURCES AS ECONOMICALLY AND EFFICIENTLY AS POSSIBLE IS REQUIRED AS NEVER BEFORE.

THERE IS A REAL NEED FOR STRUCTURE, DIRECTION, AND CONTINUITY IN THE FINANCIAL MANAGEMENT FUNCTION. IT IS IMPORTANT TO HAVE A STRUCTURE INTEGRATING THE NEEDS OF INTERNAL USERS AND RESPONDING EXTERNALLY TO GOVERNMENTWIDE FINANCIAL MANAGEMENT REQUIREMENTS -- CONGRESS, CENTRAL AGENCIES, OPERATING AGENCIES, EVEN RECIPIENTS OF FEDERAL ASSISTANCE. THERE MUST BE A SINGLE DIRECTION, A SAMENESS OF PURPOSE, AND A CONSISTENCY AND UNIFORMITY IN DATA ACCUMULATION, ACCOUNTING AND REPORTING. THE PROCESS MUST BE APOLITICAL. AND CONTINUITY — AT THE HIGHEST FINANCIAL MANAGEMENT LEVELS -- IS THE ONLY WAY TO GUARANTEE THAT THE GAME OF 'MUSICAL CHAIRS' WILL STOP. ASSISTANT SECRETARIES OF FINANCIAL MANAGEMENT CANNOT CONTINUE TO ROTATE ON THE AVERAGE OF EVERY 18 MONTHS. THIS TENURE IS ALMOST LUDICROUS WHEN THE COMPLEXITIES AND SIZE OF AGENCIES REQUIRE THREE TO FIVE YEARS TO DESIGN AND IMPLEMENT NEW FINANCIAL SYSTEMS.

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IN SUMMARY MR. CHAIRMAN, THE ASSOCIATION OF GOVERNMENT ACCOUNTANTS SUPPORTS THE INTENT AND DIRECTION OF THE PROPOSED BILL. WE URGE THAT YOU CAREFULLY CONSIDER OUR ASSOCIATION'S PROPOSAL FOR STRENGTHENING CONTROLLERSHIP IN THE FEDERAL GOVERNMENT WHICH HAS PREVIOUSLY BEEN PROVIDED TO YOUR STAFF. WE PARTICULARLY DIRECT YOUR ATTENTION TO OUR PROPOSALS AS TO:

- o TENURE OF SUCH POSITIONS
  - - CONTROLLER OF THE UNITED STATES - 8 YEARS
  - - CONTROLLERS OF AGENCIES - 4 YEARS
- o SPECIFIC QUALIFICATIONS FOR APPOINTMENT
- o DUAL REPORTING RELATIONSHIPS
- o ESTABLISHED CAREER PATH

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY. WE WILL BE HAPPY TO RESPOND TO ANY QUESTIONS YOU MAY HAVE EITHER NOW OR ANYTIME IN THE FUTURE.

THANK YOU.

STRENGTHENING CONTROLLERSHIP IN THE FEDERAL GOVERNMENT— A PROPOSAL

The Association of Government Accountants

MAY 1985

Strengthening Controllership in the Federal Government—A Proposal

"controller . . . the chief accounting officer usually responsible for the design and direction of the information system including internal control, cost accounting, financial accounting, . . . and external financial reporting."

"comptroller . . . an outmoded term for "controller," rarely used outside of government agencies."

Dr. Ralph Estes, CPA, Dictionary of Accounting, 1981

In November 1983, then AGA President Susumu Uyeda appointed a task force to examine financial management in the federal government. The task force, all experienced and knowledgeable of federal financial management, includes:

- Mr. Cornelius E. Tierney, Task Force Chairman; Partner and Chairman, Government Services Group, Arthur Young & Company;
- Mr. Charles L. Dempsey, Director of Government Services, Alexander Grant & Company; former Inspector General, Department of Housing and Urban Development;
- Mr. Joseph Donlon, Principal, Arthur Young & Company; former Senior Group Director, General Accounting Office;
- Mr. David V. Dukes, Deputy Assistant Secretary, Finance, Department of Health and Human Services;
- Mr. Roger B. Feldman, Comptroller, Department of State;
- Mr. Robert Harris, Deputy Assistant Director for Budget Analysis, Congressional Budget Office;
- Mr. Richard Kusserow, Inspector General, Department of Health and Human Services;
- Mr. Richard Willett, Partner, Alexander Grant & Company.

Last year, the task force presented its draft report, including recommendations, to the National Executive Committee of the AGA. This report, which includes the comments of the NEC, is now being presented to the membership. We are particularly interested in your views in such areas as the:

- Controllership concept, itself
- Tenure of such a position
- Qualifications of incumbents
- Appointment process
- Dual reporting relationships
- Responsibilities of the position

With regard to these areas, several conclusions have already been drawn. In addition, the task force has drafted a bill to crystalize details of the proposal and to serve as a catalyst for thoughts of reviewers.

Please send all comments to:

Mr. Fletcher Lutz, Executive Vice President
Association of Government Accountants
727 South 23rd Street
Arlington, Virginia 22202

I. RECOMMENDATIONS

Since its inception in 1950, the Association of Government Accountants has been concerned about financial management in the federal government. Events, some evolving over time, others more sudden and immediate, have now created an urgent need for legislation to insure that the government's financial management processes—its systems, controls, policies, procedures, and managers—can meet the challenge of better planning, accounting for and reporting on the enormity of the federal government.

The overall purpose of this proposal by the Association of Government Accountants is to strengthen financial management and to assure the President and the Congress that all federal financial managers are supported by timely, objective and reliable financial data. The need for improvement has existed for years, in fact, decades. Only recently, however, has this sense of urgency converged with a technological explosion and concern from the general public to create compelling circumstances for change.

This paper documents our views relating to the organizational placement and responsibilities of the financial management function in the federal government and describes an alternative for improving controllership in the federal government. While we are aware of the varied responsibilities that financial managers now discharge in the many departments, agencies and offices of the federal government, there is a need to insure that these managers have the status, authority and tenure to exercise the full range of responsibilities implicit in Presidential and Congressional controllership mandates.

Based upon these factors and other circumstances outlined in this report, it is the position of the Association of Government Accountants that legislation would be the most effective way to bring about needed improvements. The Association recommends a "Federal Controllership Act" mandating that:

- The executive branch establish an Office of the Controller (hereinafter called the "Controller") with governmentwide responsibility for assuring that the many departments, agencies and offices of the federal government uniformly and consistently perform the financial management function;
- The functional responsibilities of the Controller shall include coordinating and monitoring the development of Executive agency accounting and financial management systems, in order to establish parity among such systems and to ensure consistency with principles and standards established by the General Accounting Office;
- Each department, agency and office of the government establish an Assistant Secretary-Controller or controller (hereinafter called the "controller") position, with financial management duties, responsibilities and authorities uniformly defined and fixed for each of these federal organizations;
- The controllers be tenured, be responsible for reporting to the Office of the Controller, the head of the agency and the Congress, and that they meet or exceed certain minimum qualifications and levels of competence;
- The controllers have a well-defined career path which would insure a continual source of competent, trained and experienced financial managers to carry out the business of government; and
- The controllers be compensated in a manner commensurate with their abilities and the responsibilities of their position.

The next section of this paper outlines why we believe that Congressional action, if taken now, would be extremely timely. Section III summarizes the history of controllership in the federal government. Section IV explores the organizational structure, responsibilities, personnel and conditions that we believe are essential to improve financial management in the federal government. The proposed bill we have drafted for consideration by Congress is presented at the conclusion of this report.

II. THE IMPORTANCE OF STRENGTHENING FINANCIAL MANAGEMENT—NOW

The impetus for strengthening financial management in the federal government has been manifested in many ways. For example:

- Growth, until recently, was the order of the day; but even when restrained, the financial activities of our decentralized government still dwarf those of any economic force, anywhere in the world.

- Governmental financial systems and internal controls in many agencies and departments are frequently dated, not responsive, and in some cases only marginally workable. This structure cannot routinely assure the legislative and executive leadership that the right things are being done on time.

- A variety of individual organizations (OMB, GAO, Treasury, GSA, OPM) are responsible for various aspects of financial management. This dispersion of authority weakens accountability and the continuity of improvement initiatives.

- Diverse organizational policies, procedures, practices and systems at the departmental, agency and office levels preclude consistent financial management or uniform measuring and reporting on the activities and expenditures of government.

- In executive departments, the average tenure of assistant secretaries responsible for financial management is only 18 months. This seriously undermines the stability and dedication necessary to ensure that a job started also is completed.

These are but a few of the more familiar factors which have impeded most efforts to improve financial management in the federal government. The following highlights these and other situations which we think warrant amplification here in order to appreciate the Association's concern for "Why better financial management?" and "Why now?"

The Federal Government's Budget—Large and Complex

The federal government is big—a budget approaching a trillion dollars; 2,000 different federal programs administered by over 150 departments, agencies and offices, at some 25,000 locations; 2,500,000 civilian workers occupying 400,000 buildings. All these data and more were outlined when the Office of Management and Budget introduced the Reform '88 Program. At that time, OMB stated ". . .we don't really know the total cost of administration, which means simply: we don't know the cost of doing business."

The rate of growth of the federal government has had an impact on financial management. Its size now, compared to just 10 to 20 years ago, is difficult to comprehend, making it even more difficult to manage. In the early 1960's the federal budget was a mere $60 billion and there were only a few hundred governmental programs. Departments and agencies were just beginning to introduce computers into financial management. Government financial management was, to a large degree, a manual or paper operation, with financial data still being reflected in green-covered ledgers and journals. Where financial systems were automated, the change was essentially a transfer of manual budgeting, accounting and reporting to the automated data processing equipment. The change to "punch cards" improved data generation, but did little to improve or streamline financial management.

We can expect that for the rest of the 1980's and, in all likelihood, the 1990's, federal government receipts will not grow as rapidly as they did in the 1960's and 1970's. Expenditures may slow, but with even greater anguish. And as federal financial resources continue to shrink, the need to manage and administer budgeted and actual resources becomes increasingly more important. Responsibilities must be fixed, information must be uniformly compiled across the government and data must consistently be accounted and reported from one fiscal period to the next. The Congress and the executive branch must have the

most accurate information possible, as soon as possible. Accountability and performance must be linked if the federal government is to live within its income.

Internal Controls—A High Priority

In the 1970's and early 1980's, several reports were issued which document the state of internal controls in federal departments, agencies and offices. The reports of the General Accounting Office, the Inspectors General, Congressional investigators, and the Joint Financial Management Improvement Program (JFMIP) document control violations, breaches and gaps. Congress felt compelled to pass a law called the Federal Managers' Financial Integrity Act of 1982, which asserts internal control systems as a high priority and major concern. OMB Circular A-123, "Internal Control Systems," and the President's Reform '88 Program have also attempted to streamline financial management, improve management controls and eliminate errors. However, in testimony before the House Government Operations Committee on May 22, 1984, the Comptroller General stated that "much remains to be done to fully implement the evaluation process established by OMB to comply with the Act." In reports submitted to the President and Congress for the past two years, some federal department and agencies disclosed long-standing and complex internal control weaknesses and accounting systems problems that will not be corrected overnight.

A tremendous task lies ahead in order to make internal controls and accounting systems the safeguards they are designed to be. It will require the commitment of professional managers concerned with protecting and preserving the resources of government and dedicated to improving all aspects of financial management.

Accountability—A Critical Requirement

With the national debt now in excess of $1 trillion, and annual interest costs in excess of $100 billion, the federal manager's personal commitment to using resources as economically and efficiently as possible is required as never before.

Decentralization seems to have had an impact on the development of a sense of personal responsibily as well. In the area of financial management, decentralization has split the responsibility and the authority to design, develop, implement and monitor financial and internal control systems. The result has been a fragmentation of resources and responsibilities, that ultimately leads to confusion and ample opportunity to "pass the buck."

So many layers of personnel and processes, both manual and automated, surround any given financial transaction in government that the individual manager may lose a sense of personal responsibility for the outcome. For example, a study by the Joint Financial Management Improvement Program titled "Assuring Accurate and Legal Payments—The Roles of Certifying Officers in the Federal Government," found that there were over 14,000 certifying officers in the federal government, responsible for about a trillon dollars in payments annually. JFMIP reported that these officials were no longer in the best position to determine the legality and accuracy of payments:

> "At best, especially in large automated systems, they (the certifying officers) try to determine the completeness, consistency, and accuracy of payment processing and check the accuracy of payment control totals. At worst, they merely go through mechanical exercises which do little to assure the legality and accuracy of payments. Frequently, certification and disbursement is just a rubber-stamp process."

The control of appropriations and expenditures, which is the major requirement of most federal systems, is no small feat; but when proper accountability and stewardship are lacking it truly becomes a Herculean task.

Micro-Management—An Expensive Response

Since the early 1960's, federal agencies have expanded regulations governing organizations receiving federal funds. At all levels—the Congress, OMB, departments and agencies—there has been substantial detailed monitoring of programs and recipients of federal monies—a phenomenon known as micro-management.

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Throughout the 1960's and 1970's the cliche "tons of data, ounces of information" was widely applicable to federal financial management. The reporting requirements in these years were seen as a means of ensuring the effective use of program funds. Literally, mountains of data were collected from thousands of organizations; however, the data was not always used to improve the management of federal progams. In addition, program managers developed data requirements independent of similar programs in their own agency or elsewhere in the government. Professional financial managers were not routinely involved in designing reporting systems that would best meet management's needs governmentwide.

During the 1980's, there has been a significant reduction in government regulations, paperwork and reporting requirements. These efforts should continue and would be enhanced by our proposal for more uniform reporting and information systems throughout the federal government.

Computer Technology—Maximizing Efficiency

Using computers to manage the business of government has not been without problems. Financial management was not among the first areas to benefit from this new technology. Knowledge of how accounting, financial reporting, data compilation and data communications could be adapted to take advantage of computer technology came slowly. Neither participant in the process was fully conversant in each other's area of expertise. Financial personnel generally viewed the computer as a tool whose workings and control were the responsibility of data processors. Computer technicians in turn, had little knowledge of the "debits and credits" of the government's business or knowledge of how computers could be used to bring about improvements in financial management. As a result, the design and operating requirements of accounting systems of the 1960's and 1970's did not always identify what accounting practices should change, what internal controls were obsolete, or what new data bases government needed.

We have witnessed a torrent of literature on the subject of using computers in government: (e.g., reports from committees of Congress, the flurry of management mandates from OMB, publications from several Inspectors General, GAO reports and the Grace Commission's conclusions.) Computer-related crime in federal programs is frequently a focus of recent literature. For example, in June 1983 the President's Council on Integrity and Efficiency (PCIE) issued a survey report which set forth several clear, but disturbing facts about computer misuse and abuse in government. It noted that:

- The extent of computer-related fraud and abuse in government agencies cannot be determined because agencies do not systematically track such cases.
- Half of the known cases of fraud and abuse were detected by accident, which was twice the rate of detection through controls.

The PCIE task force concluded that "...the high proportion of cases detected by accident is alarming because of the implication of weaknesses in internal controls and the potential for undetected fraud and abuse."

Governmental Systems—An Integrated Approach

There is evidence to support the general premise that the accounting and information systems of the federal government are not uniform among agencies and departments. Financial management in government has evolved in such a way that certain central responsibilities are shared among the Treasury, GAO, OPM, OMB and GSA. Others have simply "fallen through the cracks." For example, while GAO has central authority for approving accounting systems, no single organization has direct responsibility for systems' design or operation. In fact, system design concepts may not be consistent among the programs within a single department. Some of the necessities which promote uniform systems development, such as comprehensive data dictionaries, detailed system documentation standards, uniform input and output reporting formats, tested systems architecture and specific mandated internal controls just do not exist for the federal government. There is no clear central agency coordination of systems to insure that the

systems are compatible, produce common data and comply with governmentwide accounting principles and standards. Without such coordination, the government cannot produce consolidated financial statements, or develop a financial audit process that enhances public sector accountability.

Legislation, Executive orders, GAO reports, OMB circulars, blue ribbon commissions and reports of the Inspectors General all have documented the need for improving accounting and financial information systems in the federal government. As early as 1950, the Budget and Accounting Procedures Act directed agencies in consultation with OMB, to achieve consistency in accounting and budget classifications and to synchronize accounting and budgeting classifications within organizational structures. In general, this legislation and all of the above studies failed to produce integrated financial management systems in federal departments and agencies. Two reasons for this failure may be that earlier efforts did not 1) give specific individuals responsibility for improving the systems of government, or 2) indicate the kinds of sanctions and resource commitments it would take to make widespread system improvements.

We believe that legislation that clearly delineates governmentwide responsibility and authority will bring uniformity to government financial management systems.

Financial Managers— Meeting the Challenge

For any financial management improvement initiative to be successful, continuity of qualified leadership is essential. The career paths of federal financial managers, however, frequently lack continuity and direction. The Grace Commission recently drew two conclusions related to individual agency financial managers: (1) that the levels of authority and responsibility they have are inconsistent, and (2) that there is no assurance that they have the expertise to do the job.

The financial manager's authority, responsibilities, qualifications and assigned tasks vary among individual agencies. Financial management responsibilities typically are assigned to the agency's Assistant Secretary for Management or equivalent, who also may be responsible for other functions, such as space management, personnel administration, procurement, parking or library services. Frequently, this wide range of responsibilities limits the time they can devote to the financial management function.

Turnover in this position is another major problem. According to a report by the National Academy of Public Administration, financial management leadership at the top changes, on the average, every 18 months. This severely limits the amount of energy that an individual manager can devote to designing and implementing effective management initiatives.

Each of the circumstances described above can be expanded, dissected or prioritized. Our point however, has been to demonstrate some of the existing conditions which warrant better financial management. There is a need for governmentwide systems, policies, and procedures. There is also a need for qualified, competent and tenured financial managers to implement these responsibilities, in an objective manner.

The Association believes that legislation would be the most effective way to bring about these needed improvements.

III. FINANCIAL MANAGEMENT IN THE FEDERAL GOVERNMENT— SOME BACKGROUND

Financial Management — A Definition

The objective of financial management in the federal government is to insure that, to the maximum practical extent, the financial resources—and the real resources they represent—are acquired and used lawfully, efficiently and effectively to achieve constitutionally and legally consistent purposes. Financial management has many definitions. The following is presented as one general definition of the term as used in the federal government:

> "Financial management [is] that part of total management which is

> concerned primarily with the financial affairs of an organization and the translation of actions, both past and proposed, into meaningful and relevant information for use in the management process. Depending on how an agency decides to set up its financial organization, financial management may encompass all or part of such specific functions as programming, budgeting, accounting, reporting, cash management, control of resources, cost reduction, internal auditing, systems development, and management analysis."[1]

Delegation of responsibility for planning, programming, budget formulation and analysis rests, of course with each administration, but it is generally outside the controllership function. However, we envision that the responsibility for objectively compiling and monitoring the executed budget and for comparing budgeted to actual performance will remain within the purview of the controller.

Federal Financial Management—Some History*

There is a long history of efforts to strengthen and improve financial management in the federal government. These initiatives have included Presidential and Congressionally mandated commissions and committees, the creation of new offices and agencies, reorganizations, Executive orders, circulars and legislation. They have in common the goal of trying to bring order to either the organizations, processes or systems by which the federal government manages its activities. With few exceptions, however, these efforts have been piecemeal. In several instances the proposed improvements simply added new requirements to old ones, with little concern for the interrelated organizational and procedural financial management issues. In other cases, the proposed initiatives lacked the necessary financial and personnel resources to achieve the desired changes.

Before the turn of the century, a major attempt to bring order to the financial systems of the government culminated in the enactment of the Dockery Act of 1894. This legislation sought to eliminate excess offices, provide for centralized auditing, institute preliminary examination of records, and simplify the accounts. The financial management system established by the Dockery Act remained substantially unchanged until passage of the Budget and Accounting Act of 1921.

The 1921 Act made several important changes in the financial management organization existing at that time. The most significant aspects of the Act were:

- the establishment of the General Accounting Office, which provided the Congress with an independent review of executive branch expenditures; and
- the creation in the Department of the Treasury of the Bureau of Budget (BOB), which was to manage the newly established national executive budget system.

The next major step came with the 1937 report of the President's Committee on Administrative Management (the Brownlow Committee), which proposed that the President take the initiative to improve management in departments and agencies. To accomplish this, the Executive Office of the President was created and in 1939 BOB was transferred from the Treasury Department to the Executive Office of the President.

The Brownlow Committee also attacked the Comptroller General's authority to prescribe accounting systems and to render advance rulings on proposed expenditures and the settlement of accounts, as established under the Budget and Accounting Act. The Committee recommended that these procedures be transferred to the Secretary of the Treasury and that the title of the Comptroller

*Much of this material was researched by the General Accounting Office and appeared in its draft report titled "Managing the Cost of Government," dated March, 1984 (GAO/AFMD-84-43-A). This GAO report primarily addresses the need for better federal financial management systems, while this proposal addresses the need for better federal financial management personnel.

[1] *The Joint Financial Management Improvement Program in the Federal Government of the United States*, U. S. Government Printing Office, Washington, D.C. 1967, pp. 14-15.

General be changed to Auditor General. The House and Senate considered these recommendations, but took no legislative action.

Also in 1937, as a result of recommendations in Senate Report 1275 of the 75th Congress, legislation was introduced that would have changed the name of the General Accounting Office to the Office of Auditing and Settlement which would be headed by an Auditor General. Again, no Congressional action was taken.

The advent of World War II brought with it pressure to reverse the trend toward centralized financial processes and systems. This was a time when the federal bureaucracy had expanded rapidly to meet the challenges of recovering from a worldwide depression. The added pressure of mobilizing the nation for war necessitated the decentralization of the government's financial processes and systems. It simply was not possible with pre-World War II technology to maintain centralized control over the rapidly expanding government activities during this period of national crisis. This decentralized systems approach to financial management has become part of the tradition and heritage of financial management in the government.

After the war, attention again turned to matters of management efficiency through the efforts of the first Hoover Commission (1947-49). Its authority was limited to the study of organization, methods and administration and concentrated heavily on structural reorganization. However, the Commission did recommend establishing in the Treasury Department an Accountant General with the authority to prescribe general accounting methods and to enforce accounting procedures subject to the approval of the Comptroller General.

This recommendation was not accepted, but the Commission's report resulted, among other things, in President Truman's issuance of Executive Order 10072 in 1949, providing for "continuing action to improve the management of the executive branch of the government." The Congress provided legislative support to the Executive Order in the Classification Act of 1949, which directed each department to systematically review its operations according to BOB's direction.

In 1948, the General Accounting Office, the Treasury Department and the Bureau of the Budget created the Joint Financial Management Improvement Program (JFMIP) as a cooperative effort to promote better financial management in the government. The next major piece of legislation was the Budget and Accounting Act of 1950. This legislation formally established the JFMIP and enacted many of the Hoover Commission's recommendations. It also further institutionalized the decentralized financial management structure that grew out of World War II, in part, by making the head of each executive agency responsible for establishing and maintaining an accounting system with adequate internal controls. Evidence of this decentralized approach can be seen in the large number of separately developed agency accounting systems which still exist in the federal government. In addition, the Act charged each agency head with the responsibility for preparing budget estimates to submit to the Bureau of the Budget. This, along with the requirement to present budget requests on an end-purpose or performance basis, also established the need for each agency to have its own budgeting system.

The second Hoover Commission (1953-55), unlike its predecessor, was authorized to take a much broader view. It was charged with investigating and making recommendations not only on organizational, methodological and administrative matters, but also on the need for changes in federal functions and policies. This commission upheld many of the earlier commission's recommendations with respect to accounting and budgeting practices and methodologies. For example, it recommended the continued use of performance budgeting, with agencies formulating and administering their budgets on a cost basis. The usefulness of budgeting on this basis was recognized in the 1956 amendment to the 1950 Act, but it continues to be largely ignored in practice.

In the area of management and leadership, the second Hoover Commission recommended the establishment of comptroller organizations in the principal agencies and proposed an Office of Accounting in the Bureau of the Budget, to be headed by an Assistant Director. The Commission's report stated that such an organization would enable the BOB to more effectively discharge its managerial, bugeting and accounting func-

tions and have a direct bearing on leadership within the executive branch.

Congress enacted major legislation as a result of the second Hoover Commission, but the proposal to provide centralized leadership by the establishment of the Office of Accounting was not adopted. Comptroller organizations have been established in federal agencies, but this has been done administratively and on a piecemeal basis.

Other influential financial management initiatives before 1970 include the Rockefeller Committee (1953-59), the Brooks Act (1965) and the President's Commission on Budget Concepts (1967). An important recommendation of the President's Commission was that the federal budget should be presented within the framework of a unified budget system. This recommendation was adopted, but since 1967 several exceptions removing major activities from the discipline of the budget process have been made. Thus, the lack of comprehensiveness in budgeting continues to be a significant problem.

The 1970's saw several major developments in financial management. BOB was reorganized and renamed the Office of Management and Budget (OMB) in order to emphasize a planned focus on management. The Legislative Reorganization Act of 1970 and the Congressional Budget and Impoundment Act of 1974 greatly affected the Congress's motivation to and method of influence on governmental financial management.

Since the 1974 Act, there have been numerous other initiatives aimed at improving financial management, such as:

- the Civil Service Reform Act of 1978;
- the Inspector General Act of 1978;
- the Federal Managers' Financial Integrity Act of 1982;
- Reform '88;
- Presidential reorganization proposals;
- departmental and agency efforts, such as the Treasury Department's ongoing effort to upgrade its central systems; and
- Congressional hearings on budget process reform.

More recently, the Grace Commission, in its task force report on "Federal Management Systems," once again highlighted what is perhaps the key problem in federal financial management today—no agency or person is clearly responsible for developing and coordinating financial management policy and for providing continual central leadership.

Federal Financial Management—As It's Practiced

The need for strong central direction becomes evident when one examines financial management in practice. Individual agencies at present are accountable to a variety of authorities on financial management issues: the Congress, Office of Management and Budget, General Accounting Office, Treasury, General Services Administration, Office of Personnel Management. Each has central authority over specific financial management functions. Except for Congress and the General Services Administration, the central agencies also share certain tasks through their participation in the JFMIP, cooperating with and coordinating professional development activities or conducting governmentwide surveys and studies.

Congress, of course, has the unique role. Through legislation, committee operations and other means, Congress sets the overall parameters of government financial activity. Much like a corporate Board of Directors in the private sector, Congress' role is to authorize spending/debt levels through the budget process and to establish broad policies governing money, finance and management.

In the financial management sphere, GAO is authorized to prescribe accounting principles and standards, to approve agency accounting systems and to audit the financial statements of quasi-government corporations. Through its reviews, the GAO is in a good position to recognize federal financial management needs, strengths and weaknesses, from both an individual agency and a government-wide perspective. However, because the GAO is not a part of the executive branch it does not have line authority to translate this knowledge into specific management reform.

The central line authority that does exist, rest with four executive agencies: OMB, Treasury Department, GSA, and OPM. The OMB approves agency regulations for administrative control of funds and issues

policy directives with governmentwide applicability on accounting, internal control, automated data processing and other related programs. Its authority in budgeting, both formulation and execution, does not extend to ensuring that funds are expended as planned in the budget, through adequate accounting systems and reporting. GSA establishes policy for electronic data processing, procurement, property and records management and telecommunications in the federal government. OPM is responsible for overseeing personnel administration for the federal civilian workforce.

The Treasury Department, specifically the Bureau of Government Financial Operations, functions as the government's banker, exercising both cash and debt management responsibilities and matching agency outlays against their spending authority. The Treasury also maintains certain governmentwide accounting systems, such as cash disbursements, and produces governmentwide financial reports.

IV. A PROPOSED CONTROLLERSHIP FUNCTION

For financial management in government to be effective, the Association of Government Accountants believes that there must be a central focus, more directly accountable to the President and the Congress, and a departmental, agency or office focus that has both the authority and responsibility to perform the controllership function within each organization.

This section of the report addresses several impediments to a more responsive federal financial management program. Additionally, the Association offers several recommendations for realigning and refocusing the responsibility for financial management in the government. The Association believes that there must be a centralization of federal financial management. The authority, responsibility, funds and personnel must have a single direction and must operate within a structure that forces a regular accounting of accomplishments to the President and the Congress.

Why the Controllership Function?— A Void in Financial Management

The controllership function, as it exists in the private sector, is generally not practiced in the federal sector. For the most part, only a few departments or agencies have established a single official with responsibility for agency-wide financial management. There is an inconsistency between authority and responsibility. There may be no senior official or officials primarily accountable for the continuing practice or improvement of financial management, broadly defined.

We believe it is this void that is responsible for the deficiencies which the General Accounting Office, the Inspectors General, and, more recently, the departments and agencies themselves, continue to cite. Just a limited listing of some of these deficiencies underscores the urgency to change the way the government conducts its business:

- Many departmental and agency accounting systems and systems of internal controls are technologically outdated, relatively inflexible and provide only minimal assistance to management in their overseeing and monitoring roles.
- Key governmentwide financial data is not available to the Congress without extensive special analysis and manual effort.
- The disclosed error rates of major reporting systems are excessive and costly to the country; such conditions are not restricted to any one department or agency.
- The authority and responsibility for data security is split among several officials within departments and agencies—a difficult situation to correct or improve.
- Where some departments and agencies have been fortunate enough to obtain resources to automate portions of their accounting and management information systems, some of these systems are not integrated or compatible with other automated processes of the organization.

- Since few departments and agencies have integrated or compatible budgeting and accounting systems, few managers are able to effectively manage or provide assurances that Congressional appropriations are being expended as planned.

The Controller's Role, Duties and Responsibilities— At the Central Government Level

A Controller of the United States within the executive branch would be the single individual responsible for accounting and financial information systems and reporting on a governmentwide basis. The responsibilities of this position would include some of those now dispersed by law to several agencies—the General Accounting Office, Office of Personnel Management, Treasury Department, Office of Management and Budget, General Services Administration and the Joint Financial Management Improvement Program.

The Controller's position would include responsibility for:

- A long range financial management plan for the federal government;
- Uniform accounting and program expenditure reporting and budget tracking for the federal government;
- Uniform accounting and agency management standards for systems design and reporting standards;
- Policy and procedures governing the accounting for and reporting on the programs Congress funds;
- Independent reviews and evaluations of controllership activities at individual departments, agencies and offices of the federal government;
- Reporting to the President and the Congress on the status of financial management in the government;
- Reporting to the President and the Congress on the financial position of the federal government;
- Advising the President and the Congress of the financial resources required to correct deficiencies and to improve the effectiveness of accounting and financial systems in the government;
- Implementing professional development and training programs necessary to maintain the quality of financial management in the federal government;
- Participating in the selection of department, agency and office controllers, to insure the relevance of their background, experience and capabilities to perform the controllership function.

The Controller also must cooperate and serve with the Secretary of Treasury, Comptroller General and the Director of the Office of Management and Budget on the most senior-level councils, committees and boards involved with the financial management of the federal government.

The Controller's Role, Duties and Responsibilities— At the Department or Agency Level

Within each department, agency or office there is a need to consolidate financial management direction within a single function. The organization would then be better able to provide financial information on all programs to the head of the agency. This would promote the generation of consistent financial and management information across all programs, and from one reporting period to the next.

Such a consolidation will require that the departmental, agency or office controller be responsible for the following functions related to accounting and financial information on a department, agency or officewide basis:

- Organizationwide and individual program accounting and expenditure information systems—including policies, procedures, standards, systems design and implementation;
- Organizationwide and individual program reporting systems—including adherence to reporting frequencies and formats of maximum benefit to operating managers;
- Monitoring and evaluating the effectiveness and responsiveness of accounting, information and reporting systems to operating managers;
- Organizationwide and individual program systems of internal controls—including

policies, procedures, standards, systems design and implementation;

- Performing the actual accounting function—including evaluating compliance with all externally imposed reporting requirements;
- Monitoring or tracking the financial execution of the budget in relation to actual expenditures—including the preparation and timely dissemination of performance reports to operating managers;
- Reporting to the Office of the Controller, the head of the agency, and the Congress on the financial position of that department, agency, or office and on the state of financial management;
- Developing an organizationwide financial management budget requesting the resources necessary to improve the quality of financial management and to effectively monitor and control federal expenditures;
- Participating in the appointment, professional development and periodic evaluation of financial managers in the organization.

We envision that those offices responsible for budget execution activities, accounting, fiscal reviews, systems design, development and implementation, financial analysis, internal controls report preparation and, perhaps some type of internal review, will report to the departmental, agency, or office controller.

The Controller's Office—Its Organizational Relationship

The Controller of the United States, should be viewed as the chief financial officer of the federal government. As mentioned above, the Controller would be one of the principal advisors, along with the Comptroller General, to Congress on the state of federal financial management. Additionally, the Controller would work with the heads of the other central agencies on matters concerning financial management, broadly defined.

The controllership's organizational hierarchy should parallel that of the present Inspectors General. In the larger departments and agencies, the organizational level would at a minimum be the Assistant Secretary-Controller. For smaller offices and independent commissions, the same role would exist and should formally be established as the controller's function for that organization.

Regardless of the size of the federal organization, the controller would be responsible directly to the head of the agency for the adequacy and responsiveness of that organization's systems and controls. The role would include both financial and management information systems and systems of internal control to insure that there is uniform reporting and tracking across the federal organization and a meaningful integration of financial and nonfinancial information. Inherent in the role would be the responsibility to track and report on budget execution. Thus, the controller must be an integral part of the organization's senior management team. In the larger federal organizations, there should be a functional reporting relationship between the various program controllers and financial managers and the Assistant Secretary-Controller for that federal organization.

At the department, agency or office level, the controller would also be the single individual responsible for seeing that the organization complies with the financial and information requirements imposed by such external organizations as the Congress, Treasury Department, Office of Management and Budget, General Services Administration and General Accounting Office.

Within individual federal organizations, controllers would be responsible for the acquisition, retention, training, evaluation, promotion or termination of that organization's financial management personnel. The criteria for employment would be consistent with those standards promulgated by the Controller of the United States.

The Controllership Concept—Some Implications

To move from the existing state of financial management in the federal government to a more centralized and integrated concept implies significant change. The proposed controllership function must be supported by legislation to insure that there is sufficient

stature to achieve the improvements needed. Earlier sections of this paper touched on the organizational functions, titles and responsibilities. In the following paragraphs, we discuss several other equally important organizational factors: the appointment process, tenure, career status and compensation.

The Appointment

The appointment process for the Controller of the United States, and the controller of each department, agency or office must adhere to certain minimal standards, generally outlined in the statute. Adherence to these standards is crucial to the appointment of individuals with the qualifications to competently perform as the chief financial officer of the government or as the controller of an individual federal organization.

The Controller of the United States should be independent of day-to-day political decisions in order to best serve both the President and the Congress. For this reason, the Controller should be appointed by the President, but serve with the advice and consent of the Senate.

At the department, agency or office level, the controller should also be appointed by the President, but serve with the advice and consent of the Senate. This position should be filled by only those individuals who possess the qualifications to competently execute and support the financial management needs of the organization.

Tenure of Office

The complexities of federal departments and agencies is so great that changes in systems of accounting, controls, and management information take considerable resources—many people of diverse skills, millions of dollars and years of time. It would take 3-4 years, for example, to design, develop and install a reasonable efficient new system in a cabinet-level department.

It is difficult to win support for multi-year projects when the tenure of key financial management personnel is so volatile. The National Academy of Public Administration recently reported that in the executive branch, financial management leadership changes, on the average, every 18 months. Many of the Assistant Secretaries-Management (or for Administration or Budget or Planning) vanish in mid-project and there is no guarantee that the new appointees will support their predecessor's projects. Even if successors are willing, there is an orientation period of months before the new appointee can comfortably adopt someone else's initiatives. By this time, another election arrives, new appointees take office, and the game of musical chairs begins anew.

In an attempt to slow or possibly even "stop the music," the Association of Government Accountants is proposing that the Controller of the United States be appointed for a period of eight years, and be removable from office in much the same manner and for the same reasons as the Comptroller General. Such a term would span elections and provide a horizon that is sufficient to get things done.

At the department or agency level, stability and dedication are also needed to see that a job started is also completed. At the Assistant Secretary-Controller level (for the large departments and agencies or the controller at smaller offices) we must consider having a tenured position or filling such positions with career civil servants. Alternatively, since controllers would, in all likelihood, be in the Senior Executive Service, the occupants of that office must be sensitive to the needs of both the Congress and the head of the organization.

At this level, appointments should be for a minimum of four years. Candidates unable to make "good faith" commitments for that period of time should not be considered for the controller's position. Improvements in the tenure of federal financial managers will strongly complement other efforts to improve the actual financial management process. Short-timers can do little to help with the problems that must be addressed and resolved.

Career Program

A well-defined career path for financial managers would insure a continual source of competent, trained and experienced individuals to carry out the business of government.

For decades there has been a career "series" for professional accountants/auditors, financial managers, and budget specialists. However, aside from some uniform qualifications

at the entry level, there is no formal program to help these professionals continue their professional development.

There is a need for continuous education and demonstrated experience at subordinate financial management positions. Indeed, universities might be encouraged to offer masters' level programs with a concentration on courses required to succeed in public sector financial management careers. There is already a requirement for similarly trained professionals at the state and local levels. Although the Office of Personnel Management provides some training for junior level financial managers, formal training and periodic senior-level seminars for the most responsible federal financial managers do not exist.

Compensation

Attracting controllers capable of fixing and improving the accountability of federal financial systems will be a test for both the President and the Congress. Those individuals capable of serving as the chief financial officers of multi-billion dollar organizations will not come cheaply. The compensation must be the maximum permitted by law. No doubt the federal government will not be able to compete with the compensation that these individuals could command from the private sector. However, because the position is challenging—there is an opportunity to make a change, to make a difference—many competent individuals might, nevertheless, elect to serve.

V. CONCLUSION

The Association of Government Accountants believes that its recommendations to improve financial management in the federal government are justified, attainable and necessary.

Little will be accomplished with additional studies, special commissions, Executive orders or OMB circulars. Although much has been done to document the problem, the basic issue has not been addressed—the status, authority and tenure of personnel who must perform, day in and day out.

Improvements in financial management will come when responsibility for this important function is fixed—governmentwide and in specific departments, agencies and offices. Those persons seeking controller positions must be aware of the "moral obligation" to stay long enough to make a contribution and they must be endowed with a certain independence to insure that both the President and the Congress are getting the unbiased, objective information necessary to support the decisions of government. This type of financial management will not just happen. Quality professionals must be encouraged to accept senior financial positions in government, the positions must be tenured, a career development program must be instituted and supported, and qualified individuals must be compensated at levels commensurate with the most senior officials elsewhere in the government.

Thus, the Association of Government Accountants has drafted the following bill, the "Federal Controllership Act," for Congressional consideration.

A Bill
The Federal Controllership Act

To establish governmentwide direction and coordination of financial management activities by establishing an Office of the Controller of the United States within the Executive Office of the President; and establishing an Office of the Assistant Secretary-Controller within each Executive agency; and for other purposes.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, that this Act may be cited as the "Federal Controllership Act."

Title I — General

Purposes; Establishment

SEC. 1. In order to:

(a) provide central policy development, direction and coodination of Federal financial management activities by consolidating these responsibilities under a single organizational structure;

(b) create independent units to conduct and supervise financial management activities relating to programs and operations of each Executive agency; and

(c) provide for the production of adequate, accurate, timely and consistent financial data for use of the Executive Branch and the Congress in the financing, management and evaluation of Federal programs.

There is hereby established in the Executive Office of the President an Office of the Controller of the United States and, in each Executive agency, an Office of the Assistant Secretary-Controller.

Definitions

SEC. 2. For the purposes of this Act:

(a) the term "Controller" means the Controller of the United States, Executive Office of the President.

(b) the term "Executive agency" means an agency as defined in section 552 (e) of title 5, United States Code, including an establishment as defined in paragraph (2).

(c) the term "head of an Executive agency" means the highest level official within that agency.

(d) the term "Assistant Secretary-Controller" means the Assistant Secretary-Controller of an Executive agency, or an equivalent position at a non-Cabinet level agency, i.e., Associate Administrator-Controller, Assistant Administrator-Controller, Associate Director-Controller, Assistant Director-Controller, etc.

(e) the term "Office" means the Office of the Assistant Secretary-Controller of an Executive agency; and

(f) the term "financial management" means all those systems, controls, policies and procedures of an Executive agency which plan, account for, document, and report on (1) financial performance and control of resources, both actual and as budgeted, and (2) promote economical and efficient use of financial resources such as financial planning, budget execution, accounting, financial information systems development and maintenance, financial analysis, debt and credit management, cash management and analysis, and reporting.

Title II — Controller of the United States

Appointment and Removal

SEC. 3.

(a) There shall be within the Executive Branch a Controller who shall be appointed by the President, by and with the advice and consent of the Senate, without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, budget execution, financial analysis, auditing, systems development, public administration, or management analysis.

(b) The appointment of the Controller shall be for a term of eight years, except that the Controller may be removed from office by the President prior to the expiration of such term for permanent disability, inefficiency, incompetency, neglect of duty, malfeasance, or a felony or conduct involving moral turpitude. The President shall communicate the reasons for removal to both Houses of Congress. The Controller may not be reappointed.

(c) The Controller shall receive compensation at the rate provided for in Level II of the Executive Schedule under section 5313 of title 5, United States Code.

(d) The Controller shall be subject to the provisions of subchapter III of chapter 73, title 5, United States Code, notwithstanding any exemption from such provisions which might otherwise apply.

Duties and Responsibilities

SEC. 4. It shall be the duty and responsibility of the Controller of the United States to:

(a) provide leadership, central direction, guidance and monitoring of Executive agencies in the management of their financial activities and related financial reporting.

(b) recommend to the President, the Congress and the heads of all Executive agencies, methods, policies and procedures concerning the use of financial data which will enable effective management of the operations and activities of such agencies.

(c) identify and establish financial management objectives and information requirements at the national level. The purpose of such objectives is to define the data requirements of standards established by the General Accounting Office, for the use of all Executive agencies in the development and operation of their accounting and financial systems. Such systems are to be established within time periods prescribed by the Controller of the United States.

(d) coordinate and monitor the development of Executive agency accounting and financial management systems required by subsection (d) for the purpose of establishing parity among such systems and ensuring consistency with principles and standards established by the General Accounting Office.

(e) ensure that the President and the Congress are kept fully and currently informed of the Federal government's:

- financial position and results of its operations;
- financial management condition, including progress made and improvements outstanding; and
- requirements for financial resources to correct deficiencies and improve the effectiveness of accounting and financial systems, and systems of controls.

(f) establish, in consultation with the Office of Personnel Management, governmentwide personnel qualifications and job descriptions for all

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Federal agency controllership positions.

(g) recommend to the President at least three individuals for each vacancy in an agency Assistant Secretary-Controller position. The President may ask the Controller to recommend additional individuals.

Authority

SEC. 5.

(a) In addition to the authority otherwise provided by this Act, the Controller, in carrying out the provisions of this Act, is authorized:

(1) to have access to all records, reports, documents, papers, or other material available to any Executive agency which relate to functions and activities with respect to which the Controller has responsibility under this Act;

(2) to require such reports as may be necessary for carrying out the duties and responsibilities assigned by this Act from any Executive agency or unit thereof;

(3) to select, appoint, and employ such officers and employees as may be necessary for carrying out the functions, powers, and duties of the Office of the Controller of the United States subject to the provisions of title 5, United States Code, governing appointments in the competitive services, and the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates;

(4) to the extent and in such amounts as may be provided in advance by appropriations acts, to enter into contracts and other arrangements for studies, analyses and other services with public agencies and with private persons, and to make such payments as may be necessary to carry out the provisions of this Act; and

(5) to obtain services as authorized by section 3109 of title 5, United States Code, at daily rates not to exceed the equivalent rate prescribed for grade GS-18 of the General Schedule by section 5332, title 5, United States Code.

(b) Upon request of the Controller for records or reports under subsections (a)(1) and (2) of this section, the head of any Executive agency to whom the request is made, shall, insofar as is practicable and not in contravention of any existing statutory restriction or regulation of the Executive agency, furnish to the Controller, or to an authorized designee, such records or reports.

Title III — Agency Assistant Secretary-Controller

Appointment and Removal

SEC. 6.

(a) There shall be at the head of each office an Assistant Secretary-Controller who shall be appointed by the President, by and with the advice and consent of the Senate, without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, budget execution, financial analysis, auditing, systems development, public administration, or management analysis. Each Assistant Secretary-Controller shall report to and be under the general supervision of the head of the Executive agency involved or, to the extent which such authority is delegated, the officer next in rank below such head, but shall not report to, or be subject to supervision by any

other officer of such Executive agency.

(b) The appointment of an Assistant Secretary-Controller shall be for a term of four years, except that an Assistant Secretary-Controller may be removed from office by the President prior to the expiration of such term for permanent disability, inefficiency, incompetency, neglect of duty, malfeasance or a felony or conduct involving moral turpitude. The President shall communicate the reasons for any such removal to both Houses of Congress. An Assistant Secretary-Controller may be reappointed for a second term.

(c) Each Assistant Secretary-Controller shall receive compensation at the rate provided for level IV of the Executive Schedule under section 5315 of title 5, United States Code or at the appropriate level in a non-cabinet agency.

(d) An Assistant Secretary-Controller shall be subject to the provisions of subchapter III of chapter 73, title 5, United States Code, notwithstanding any exemption from such provisions which might otherwise apply.

Duties and Responsibilities

SEC. 7. It shall be the duty and responsibility of each Assistant Secretary-Controller, with respect to the Executive agency within which his or her office is established, to:

(a) conduct, supervise and coordinate all financial management activities relating to the programs and operations of such Executive agency;

(b) recommend policies for, and to conduct, supervise, or coordinate relationships between such Executive agency and other Federal agencies, state and local government agencies, and non-governmental entities with respect to financial management;

(c) develop and maintain financial management, accounting and reporting systems for such Executive agency in accordance with policies and procedures established by the Controller of the United States; and

(d) keep the head of such Executive agency, the Controller of the United States and the Congress fully and currently informed by means of reporting requirements established by the Controller of the United States and otherwise of such Executive agency's:

- financial position and results of its operations;
- financial management condition, including progress made and improvements outstanding; and
- requirements for financial resources to correct deficiencies and improve effectiveness of accounting and financial systems.

Authority

SEC. 8.

(a) In addition to the authority otherwise provided by this Act, each Assistant Secretary-Controller, in carrying out the provisions of this Act, is authorized to:

(1) have access to all records, reports, documents, papers, or other materials available to the applicable Executive agency which relate to functions and activities with respect to which that Assistant Secretary-Controller has responsibilities under this Act;

(2) require such information and assistance necessary for carrying out the duties and responsibilities assigned by this Act from any unit of the applicable Executive agency, or state or local governmental agency participating in the applicable Executive agency's programs;

(3) have direct and prompt access to the head of the Executive agency involved when necessary for any

purpose pertaining to the performance of functions and responsibilities under this Act;

(4) select, appoint and employ such officers and employees as may be necessary for carrying out the functions, powers, and duties of the office subject to the provisions of title 5, United States Code, governing appointments in the competitive service, and the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates;

(5) to the extent and in such amounts as may be provided in advance by appropriations acts, enter into contracts and other arrangements for studies, analyses and other services with public agencies and with private persons; make such payments as may be necessary to carry out the provisions of this Act; and

(6) obtain services as authorized by section 3109 of title 5, United States Code, at daily rates not to exceed the equivalent rate prescribed for grade GS-18 of the General Schedule of section 5332 of title 5, United States Code.

(b) Upon request of the Assistant Secretary-Controller for records or information under subsections (a) (1) and (2) of this section, the head of the Executive agency to whom the request is made shall, insofar as is practicable and not in contravention of any existing statutory restriction or regulation of the Executive agency, furnish to the Assistant Secretary-Controller or to an authorized designee, such records or reports.

Title IV
Transfer of Functions, Conforming Technical Amendments

Transfer of Functions

SEC. 9.

(a) There shall be transferred to the Office of the Controller of the United States and to each Office of the Assistant Secretary-Controller, pursuant to an executive order issued by the President:

(1) such functions, powers or duties of any Federal agency as the President determines are properly related to the functions of the Office of the Controller of the United States and each Office of the Assistant Secretary-Controller and which, if transferred, would be consistent with their purpose and creation.

(2) such personnel, property and records of their Federal agencies which relate to functions, powers and duties transferred under subsection (a) (1) of this section.

(b) Personnel transferred pursuant to subsection (a) (2) shall be transferred in accordance with applicable laws and regulations relating to the transfer of functions except that the classification and compensation of such personnel shall not be reduced for one year after such transfer.

(c) Any person who, on the effective date of this Act, held a position compensated in accordance with the General Schedule, and who, without a break in service, is appointed to the Office of the Controller of the United States or an Office of the Assistant Secretary-Controller to a position having duties comparable to those performed immediately preceding such appointment shall

continue to be compensated in the new position at no less than the rate provided for the previous position for the duration of service in the new position.

Conforming and Technical Amendments

SEC. 10.

(a) Section 5313 of title 5, United States Code, is amended by adding at the end thereof "Controller of the United States."

(b) Section 5315 of title 5, United States Code, is amended by adding at the end thereof the "Assistant Secretary-Controller" of each Executive agency.

(c) Subsection 3511 (d) of title 31, United States Code is amended by including the "Controller of the United States."

RICHARD P. KUSSEROW

INSPECTOR GENERAL

DEPARTMENT OF HEALTH AND HUMAN SERVICES

I AM RICHARD P. KUSSEROW, INSPECTOR GENERAL OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES. IT IS MY PLEASURE TO APPEAR BEFORE THIS COMMITTEE TODAY TO DISCUSS YOUR EFFORTS TO DEVELOP A BILL TO IMPROVE FINANCIAL MANAGEMENT IN THE FEDERAL GOVERNMENT.

OVER THE LAST SEVERAL YEARS THERE HAVE BEEN REVIEWS OF FEDERAL FINANCIAL MANAGEMENT BY GROUPS WITHIN THE EXECUTIVE BRANCH, BY THE CONGRESS, THE GENERAL ACCOUNTING OFFICE (GAO), THE BUSINESS SECTOR, AND PROFESSIONAL GROUPS. A COMMON THEME RESULTING FROM THE MANY AND VARIED ANALYSES IS THE NEED TO ESTABLISH CHIEF FINANCIAL MANAGEMENT OFFICERS (CFMO'S) AT VARIOUS LEVELS OF GOVERNMENT.

I AM CONVINCED THAT THIS IS THE DIRECTION IN WHICH THE FEDERAL GOVERNMENT SHOULD MOVE. THE WORK OF THE OFFICE OF INSPECTOR GENERAL (OIG) AT HEALTH AND HUMAN SERVICES (HHS) AND OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY (PCIE), OF WHICH I CURRENTLY SERVE AS VICE CHAIRMAN, CONVINCE ME THAT THE ESTABLISHMENT OF THE CFMO'S CAN BE THE BEDROCK FOR IMPROVEMENT IN TWO AREAS: FIRST, DOLLAR SAVINGS AND SECOND, MORE ACCURATE AND MORE TIMELY FINANCIAL DATA. AN ONGOING FOCAL POINT FOR GOOD FINANCIAL MANAGEMENT INSURES CONTINUITY OF GOVERNMENT OPERATIONS.

THE EVIDENCE CLEARLY SUGGESTS THAT SIGNIFICANT SAVINGS CAN BE MADE BY IMPROVEMENTS IN FINANCIAL MANAGEMENT. FOR EXAMPLE,

IN THE EXECUTIVE BRANCH, THE PRESIDENT'S MANAGEMENT REPORT FOR 1988 REPORTS THAT THE INTEREST SAVINGS FROM CASH MANAGEMENT FOR 1986 ALONE WAS $1.1 BILLION. AT HHS, THE OIG HAS FOUND EXAMPLES OF COST SAVINGS AND IN EACH OF THESE CASES, THESE SAVINGS COULD BE ACCOMPLISHED WITH THE EXPENDITURE OF LITTLE OR NO ADDITIONAL RESOURCES. FOR EXAMPLE:

- THE HHS OIG CONDUCTED AN AUDIT OF DEPOSITS OF FICA CONTRIBUTIONS INTO THE SOCIAL SECURITY TRUST FUNDS. PREVIOUSLY, STATE AND LOCAL GOVERNMENT EMPLOYERS WERE REQUIRED TO MAKE CONSOLIDATED SEMIMONTHLY DEPOSITS OF FICA CONTRIBUTIONS ON EMPLOYEE WAGES. AS POINTED OUT IN OUR OIG REPORT, ACCELERATING THE SEMIMONTHLY DEPOSIT SCHEDULE TO BRING IT IN LINE WITH THE PRIVATE SECTOR WOULD INCREASE SOCIAL SECURITY TRUST FUND INTEREST INCOME AND CONTRIBUTION RECEIPTS BY A TOTAL OF $1.4 BILLION OVER A 5-YEAR BUDGET CYCLE (CBO ESTIMATE). OUR OFFICE'S RECOMMENDATION WAS INCLUDED WITH THE PASSAGE OF OMNIBUS BUDGET RECONCILIATION ACT WHICH NOW REQUIRES STATE AND LOCAL EMPLOYERS TO FOLLOW THE PRIVATE SECTOR SCHEDULE FOR DEPOSITS.

- WE RECENTLY RELEASED A REPORT ON THE OIG'S ONGOING NATIONWIDE REVIEWS CONFIRMING SIGNIFICANT CASH MANAGEMENT PROBLEMS AT EDUCATIONAL INSTITUTIONS

PARTICIPATING IN THE HEALTH PROFESSIONS STUDENT LOAN AND NURSING STUDENT LOAN PROGRAMS. THESE PROBLEMS STEM FROM THE FAILURE OF MANY INSTITUTIONS TO (1) PROPERLY CREDIT INVESTMENT INCOME EARNED ON IDLE PROGRAM FUNDS TO THE LOAN ACCOUNTS; (2) PERIODICALLY RETURN TO THE PUBLIC HEALTH SERVICE (PHS) EXCESS PROGRAM FUNDS; AND (3) EFFECTIVELY DEAL WITH UNCOLLECTIBLE LOANS.

--ON A NATIONWIDE BASIS, INSTITUTIONS HAVE EARNED AS MUCH AS $42.7 MILLION OF INVESTMENT INCOME ON IDLE PROGRAM FUNDS. THIS AMOUNT WAS NOT PROPERLY CREDITED TO LOAN FUND ACCOUNTS. IDLE FUNDS WERE INVESTED BY EITHER THE INSTITUTION OR ANOTHER STATE AGENCY. UNCREDITED INVESTMENT INCOME WAS RETAINED FOR OTHER USES BY EITHER THE INSTITUTION OR THE OTHER AGENCY.

--ANOTHER $20.2 MILLION IS BEING RETAINED BY INSTITUTIONS WHO NO LONGER HAVE A NEED FOR EXCESS PROGRAM FUNDS.

--ABOUT $10.8 MILLION IN UNCOLLECTIBLE LOANS ARE NEVERTHELESS BEING RETAINED IN INSTITUTIONAL LOAN PORTFOLIOS. THESE LOANS SHOULD HAVE BEEN SUBMITTED TO THE PUBLIC

HEALTH SERVICE (PHS), WHICH HAS OVERALL PROGRAM RESPONSIBILITY, FOR WRITE-OFF APPROVAL. IN MANY CASES, THE INSTITUTIONS HAVE NOT COMPLIED BECAUSE OF THE LIKELIHOOD THAT PHS WILL CONCLUDE THAT DUE DILIGENCE IS LACKING AND REQUIRE INSTITUTIONS TO REPAY THE UNCOLLECTIBLE AMOUNTS.

- UNDER THE AEGIS OF THE PCIE, SEVERAL OIGS, WORKING TOGETHER, CONDUCTED A CASH MANAGEMENT AUDIT COVERING THE COLLECTION AND DEPOSITS PROCESS IN SIX FEDERAL AGENCIES. THE PURPOSE OF THE AUDIT WAS TO DETERMINE WHETHER THE COLLECTION AND DEPOSIT OF FUNDS RECEIVED BY THE AGENCIES COULD BE ACCELERATED FOR EVENTUAL CREDIT TO THE TREASURY DEPARTMENT. THE AUDIT NOTED THAT CASH COLLECTIONS AND DEPOSITS CAN BE ACCELERATED BY $3.2 BILLION AND THAT COST SAVINGS OF APPROXIMATELY $222 MILLION WOULD BE GENERATED.

IT IS VERY DIFFICULT TODAY TO GET FINANCIAL DATA THAT IS BOTH ACCURATE AND CURRENT. YET DECISIONS THAT ARE DOLLAR-RESOURCED BASED ARE AMONG THE MOST CRUCIAL THAT GOVERNMENT LEADERS MUST MAKE AND WE MUST MOVE TO PROVIDE THE LEADERS OF THE EXECUTIVE BRANCH AND THE CONGRESS IMPROVED DATA.

FROM OUR EXPERIENCE AS THE AUDITOR FOR THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS), WE HAVE HAD THE OPPORTUNITY TO SEE THE POTENTIAL BENEFITS OF FOCUSED FINANCIAL MANAGEMENT. CLEARLY, THERE IS A NEED FOR A CFMO AT THE DEPARTMENTAL LEVEL AND I HAVE BEEN CONSISTENT IN RECOMMENDING THIS FOR CONSIDERATION AT HHS. THIS IS TRUE WHETHER THE DEPARTMENT IS LARGE OR SMALL. BUT IN LARGE AND ORGANIZATIONALLY COMPLEX DEPARTMENTS SUCH AS HHS, WE MUST NOT PLACE THAT OFFICIAL IN THE POSITION OF TRYING TO MICRO-MANAGE OTHER LARGE ORGANIZATIONS.

MAJOR PROGRAMS ARE CARRIED OUT AT LOWER LEVELS. THE SOCIAL SECURITY ADMINISTRATION ALONE IS THE LARGEST ENTERPRISE IN THE UNITED STATES AND CLEARLY NEEDS A CFMO. DAY-TO-DAY OPERATIONS OF THE PROGRAM OCCUR AT THIS LEVEL, AND THIS IS WHERE THE FINANCIAL SYSTEMS THAT CONTROL FUNDS ARE ACTUALLY MANAGED. THIS IS WHERE THE CASH FLOWS. LET ME FURTHER ILLUSTRATE THIS POINT BY DESCRIBING THE SOCIAL SECURITY ADMINISTRATION AND THE HEALTH CARE FINANCING ADMINISTRATION, WHICH ARE TWO MAJOR ENTITIES IN OUR DEPARTMENT.

- SOCIAL SECURITY ADMINISTRATION (SSA)

  THE SSA ADMINISTERS INCOME SECURITY PROGRAMS FOR THE AGED, DISABLED, AND POOR AND HAS NET OUTLAYS OF $233 BILLION ANNUALLY. THESE PROGRAMS INCLUDE THE RETIREMENT, SURVIVORS', AND DISABILITY INSURANCE

PROGRAMS FINANCED BY THE SOCIAL SECURITY TRUST FUNDS, PLUS THE SUPPLEMENTAL SECURITY INCOME AND BLACK LUNG PROGRAMS WHICH ARE FUNDED FROM GENERAL REVENUES BUT COMMONLY ADMINISTERED THROUGH SOCIAL SECURITY DISTRICT OFFICES. IT IS STAFFED BY 70,000 EMPLOYEES.

I AM PLEASED TO REPORT TO YOU THAT SOCIAL SECURITY COMMISSIONER, DORCAS HARDY, ACTING ON RECOMMENDATIONS OF THE COMPTROLLER GENERAL AND OUR OFFICE HAS ESTABLISHED A POSITION OF CFMO AND HAS FILLED THAT POSITION WITH NORMAN GOLDSTEIN, A CAREER EMPLOYEE WITH A SOUND FINANCIAL MANAGEMENT BACKGROUND.

- HEALTH CARE FINANCING ADMINISTRATION (HCFA)
  THE HCFA, WHICH OPERATES THE MEDICARE AND MEDICAID PROGRAMS, HAS A TOTAL ANNUAL OUTLAY THIS YEAR OF $100 BILLION, REPRESENTING NEARLY 10 PERCENT OF THE FEDERAL BUDGET.

IF WE ARE TO ESTABLISH CFMO'S AT THESE MAJOR PROGRAM LEVELS, WE NEED TO CAREFULLY ESTABLISH THEIR RESPONSIBILITY, AUTHORITY AND THE LINES OF THEIR ACCOUNTABILITY. WHILE THE SCOPE OF RESPONSIBILITY WILL VARY SOMEWHAT WITH THE NATURE OF THE PROGRAMS, IT SHOULD AT A MINIMUM:

- ADVISE THE PROGRAM AGENCY HEAD ON FINANCIAL MANAGEMENT;

- O CONDUCT, SUPERVISE, AND COORDINATE ALL FINANCIAL MANAGEMENT ACTIVITIES AND OPERATIONS OF THE PROGRAM AGENCY;

- O IN COMPLIANCE WITH DEPARTMENTAL STANDARDS, DEVELOP AND MAINTAIN A PROGRAM AGENCY FINANCIAL MANAGEMENT SYSTEM;

- O DIRECT AND MANAGE PROGRAM AGENCY FINANCIAL MANAGEMENT SUPPORT ACTIVITIES SUCH AS FINANCIAL MANAGEMENT AND BUDGET AS WELL AS THE RECRUITMENT, SELECTION AND TRAINING OF FINANCIAL MANAGEMENT PERSONNEL;

- O PREPARE AND TRANSMIT TO THE PROGRAM HEAD AND THE DEPARTMENTAL CFMO AN ANNUAL REPORT ON THE STATUS OF PROGRAM AGENCY FINANCIAL MANAGEMENT; AND

- O PREPARE FOR THE PROGRAM AGENCY HEAD AN ANNUAL PROGRAM FINANCIAL STATEMENT TO BE FORWARDED TO THE SECRETARY (OR DEPARTMENTAL HEAD), THE PRESIDENT, AND THE CONGRESS.

ONE OF THE MOST IMPORTANT CONSIDERATIONS MUST BE THE RELATIONSHIP OF THE PROGRAM CFMO TO THE DEPARTMENTAL CFMO. CLEARLY, THE PROGRAM CFMO MUST BE ACCOUNTABLE TO THE PROGRAM

CHIEF BECAUSE THE SUCCESS OF THE FINANCIAL MANAGEMENT FUNCTION IS CRUCIAL TO THE SUCCESS OF THE PROGRAM. FOR EXAMPLE, AT SSA THE CFMO MUST BE ACCOUNTABLE TO THE COMMISSIONER OF SSA. AT THE SAME TIME THE PROGRAM CFMO MUST ALSO BE RESPONSIVE TO THE DEPARTMENTAL CFMO. THIS CAN BE ACCOMPLISHED BY THE LATTER ESTABLISHING STANDARDS AND GUIDELINES WHICH THE PROGRAM CFMO MUST MEET.

UNDER THE CONCEPT OUTLINED ABOVE, THE RESPONSIBILITIES OF THE DEPARTMENTAL CFMO WOULD BE TO:

- ADVISE THE SECRETARY (OR DEPARTMENTAL HEAD) ON FINANCIAL MANAGEMENT.

- DEVELOP AND PROMULGATE THE DEPARTMENT'S GOALS AND OBJECTIVES FOR FINANCIAL MANAGEMENT, AND TO ASSIGN GOALS TO PROGRAM AGENCIES.

- COORDINATE ALL FINANCIAL MANAGEMENT ACTIVITIES AND OPERATIONS OF THE DEPARTMENT AND CONDUCT DEPARTMENTWIDE FINANCIAL MANAGEMENT ACTIVITIES AND OPERATIONS.

- DEVELOP, IN COMPLIANCE WITH GOVERNMENT-WIDE STANDARDS, DEPARTMENTAL STANDARDS FOR FINANCIAL MANAGEMENT SYSTEMS. THE DEPARTMENTAL CFMO MAY

DEVELOP AND MAINTAIN DEPARTMENTWIDE FINANCIAL MANAGEMENT SYSTEMS.

- DEVELOP DEPARTMENTAL POLICY AND REVIEW AND APPROVE PROGRAM AGENCY FINANCIAL MANAGEMENT SUPPORT BUDGETS AND PLANS.

- INSURE THAT IN THE AUDIT RESOLUTION PROCESS, PROGRAM MANAGERS FOLLOW THROUGH ON THEIR COMMITMENT TO EFFECT PROGRAM CORRECTIONS AND COLLECT MONEY INAPPROPRIATELY EXPENDED.

- REVIEW AND RESPOND TO PROGRAM AGENCY ANNUAL FINANCIAL MANAGEMENT REPORTS, AND PREPARE AN ANNUAL DEPARTMENTAL REPORT TO THE SECRETARY, THE PRESIDENT, AND THE CONGRESS ON THE STATUS OF FINANCIAL MANAGEMENT IN THE DEPARTMENT.

- AFTER AUDIT OF PROGRAM AGENCY FINANCIAL STATEMENTS BY THE INSPECTOR GENERAL, PREPARE A DEPARTMENTAL CONSOLIDATED REPORT FOR SUBMISSION TO THE PRESIDENT SETTING OUT THE FINANCIAL CONDITION OF THE DEPARTMENT, INCLUDING NECESSARY DEPARTMENTAL ACTION AND RECOMMENDATIONS TO THE ADMINISTRATION, AS WELL AS A STATEMENT OF THE EFFICIENCY OF THE AUDIT RESOLUTION PROCESS.

IN SUMMARY, MY EXPERIENCE AS AN INSPECTOR GENERAL MAKES ME A BELIEVER IN THE CFMO CONCEPT AS A WAY TO BOTH SAVE MONEY AND TO PROVIDE CURRENT AND ACCURATE FINANCIAL DATA. BUT, MY EXPERIENCE ALSO CONVINCES ME THAT WE MUST ESTABLISH THIS POSITION AT MAJOR PROGRAM LEVELS. WE SHOULD AVOID THE TEMPTATION TO RESTRICT THE CFMO TO A SINGLE DEPARTMENTAL OFFICIAL WHO WOULD MANAGE FROM THAT LEVEL.

I WILL BE PLEASED TO ANSWER ANY QUESTIONS THAT THE COMMITTEE MAY HAVE.

PREPARED STATEMENT

of

JOSEPH R. WRIGHT, JR.

DEPUTY DIRECTOR

OFFICE OF MANAGEMENT AND BUDGET

before the

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

WASHINGTON, D.C.

JULY 23, 1987

Mr. Chairman and Members of the Committee: it is a pleasure to appear before you today to discuss the need for improving the Federal Government's financial management capabilities, the progress we have already made in this effort, the remaining steps to be taken, and the organization and plans to accomplish this massive undertaking. I will also address the draft legislative proposal to create an Under Secretary for Financial Management at the Department of the Treasury. I know the Administration and Members of this Committee share a continuing commitment to improving the management of the Federal Government. We are proud of what has been accomplished so far and are ready to work with the Committee to chart the proper course for the largest management improvement effort ever attempted.

Financial Management Encompasses Much of the Administrative Processes of the Federal Government

Mr. Chairman, I have been hoping for some time to have an opportunity to talk to this Committee about the Administration's perspective on the entire financial management area. First, I want you to understand how we define Federal financial management. We include budget formulation and execution, program and administrative accounting, personnel, payroll, procurement, grants, cash, credit, property, and asset management. We think of the Federal establishment as a large corporation or entity -- an enormous one, spending an amount equal to one-fourth of the Gross National Product -- not a comparatively small enterprise or group of enterprises like the Fortune 500 or State and local governments. While sheer size and complexity create special

problems for Federal executives, we believe there is nothing to prevent Federal financial management from operating eventually the way it does in the private sector. When this Administration came into office we asked: How do we get the discipline and accountability we have seen in business? Six Years Ago, Federal Financial Management Was Unsophisticated, Incompatible, Out of Date, and Wasteful. We quickly realized that this was not to be done overnight, especially in financial management.

In 1981, we found a host of problems in virtually all aspects of financial management. There was no comprehensive Federal credit policy governing programs with $505 billion in direct and guaranteed loan portfolios, $30 billion in delinquent debt, growing 43 percent per year! Federal cash flows were not under control at all -- 30 percent of payments to firms were made late and 45 percent were made too early. There was no Governmentwide cash management system -- and checks were backlogged in mailrooms for weeks, or even months. There were almost 400 financial systems, mostly antiquated, incompatible, and redundant. Many of these systems failed to conform to accounting standards. There was no awareness of the need for internal controls to prevent fraud, theft, diversion, or misuse of funds. There was no connection between budget and accounting data and very little management information data to use to measure the impact of how funds have been spent. These problems were not limited to the financial systems, but resulted from attitudes and interests ingrained in the bureaucracy; we found that we would need to change the culture of agencies. Improvements to financial management became the keystone of the President's Management Improvement Program -- Reform '88.

We Began Our Financial Management Upgrade by Focusing on Stopping the Wasteful, Expensive Practices and Planning for Longer-Range Improvements

We then asked: What is the most practical way to step up to this array of issues? We knew we needed to fix specific problems as well as to make basic changes -- cash and credit management, modernization and consolidation of uniform accounting systems, a Chief Financial Officer, and agency controllerships. We knew there would be only a fixed amount of management and political will that could be brought to bear on these issues. We also knew we had to convince a lot of people of the need for systemic change; and we could only do this by showing some concrete successes. And we knew vast amounts of money were being lost.

For these reasons, we deliberately picked as our top priorities the areas where dollar losses were the greatest or where significant changes could be made quickly. In practice, this meant that we looked first at the "back end" of financial processes -- the hemorrhaging delinquent debt and the pointless loss of interest on cash flows -- and made these areas our early top priorities while we planned the "long term" upgrades of the financial accounting systems.

Efforts to Date Have Produced Success

Because the legislative proposal we are discussing today implies a certain lack of confidence in OMB as a leader in Governmentwide reform of financial management, I want to describe the Administration's financial management initiative from the viewpoint of OMB.

We will describe to you some of our specific accomplishments and plans for completing achievement of improved financial management across government. I hope you will bear with my discussing what we have accomplished in the last five and one-half years. I want to spend some time on this because I do not believe there has been sufficient acknowledgement of this Administration's achievements in financial management which I believe are unparalelled anywhere in government or in the private sector.

CASH MANAGEMENT Was Our "Number One" Priority in 1981-1982 for Improvement

Our first undertaking was the reform of cash management. In 1981 Federal cash flows were about $1.3 trillion; today the annual cash flow of collections and disbursements is $1.8 trillion. Until 1981, large payments to the Government came in by check rather than by instantaneous electronic transfer. Checks were often collected in a drawer until enough had accumulated to mail across the country. Checks often remained attached to forms until both could be processed. Thus, the importance of "float" was largely ignored. We had data to show that we could save about $1 billion (depending on the interest rate) a year in interest which was being lost on our cash flows by taking some simple steps.

Actions Taken in Cash Management

OMB and Treasury began an aggressive program for strengthening the Government's cash management priorities:

- In March, 1981, the President established the President's Council on Integrity and Efficiency (PCIE), bringing together the Inspectors General in a coordinated effort to attack fraud, waste, and abuse. The PCIE provided critical fact-finding support for OMB and Treasury financial management initiatives.

- In September, 1981 OMB began with a directive to all Executive agencies to improve the timeliness of their payments to vendors by reviewing payment practices; preparing plans for improvement and regularly reporting on progress to OMB; including specific payment terms in contracts, designating a top-level Cash Management Officer responsible for payments; clarifying payment instructions, and including timely bill payment in employee performance appraisals. Goals were set to speed deposits into the Treasury, control timing of payments, and eliminate excess balances held outside Treasury. We asked Treasury to create a cash management unit as the "line agency" to implement these activities.

- During 1981, telecommunication capabilities were upgraded significantly to transfer funds to almost any financial entitity in the country. Today, 324 million electronic messages routinely control disbursement and collection of funds and this system can "warehouse" disbursements so that bills are paid as close as possible to the due date, neither early nor late.

- In May, 1982 the Prompt Payment Act was enacted which helped greatly to focus agency attention on businesslike practices for bill paying.

- In August, 1982, OMB Circular A-125 implemented the Prompt Payment Act. We have come from the poor performance prior to 1982 when only 25 percent of payments were found by GAO to be paid on time to the 1986 data reported by agencies which showed that 84 percent of payments were made on time.

- During 1984, "lockboxes" were finally established, although they had been in widespread use for some time in the private sector to speed up processing payments. Checks are now sent by individuals to a post office box where they are picked up by a commercial bank, under contract with the government agency, for processing. Banks are equipped with the latest

technology for processing large volumes very quickly; this is their business, after all. Mail and processing float is reduced by as much as two weeks. As use of lockboxes increases in the private sector, so too is it becoming ever more popular among government agencies.

- In 1984, the Department of Defense established a new payment system reducing early payments by about $14 billion annually.

- Cardboard checks were costing the government $13 per 1,000, while paper ones cost only $4.50 per 1,000, about 65 percent less. About 500 million cardboard checks were issued annually. In 1985, Treasury finally replaced the old cardboard checks with paper checks.

Where We Are Today in Cash

Today, the nationwide cash concentration system electronically links 2200 banks, speeding collections and saving the taxpayers $19 million per year in interest. Some 267 accounts in 50 agencies have been converted to the nationwide lockbox system. Annual cash flow through lockboxes now totals $12 billion and is expected to double in two years. Electronic collection of funds owed to the Government has increased to $110 billion annually. Currently, 60 percent of Federal employees' salaries and 45 percent of payments to beneficiaries are paid by EFT. The majority of bills are paid on time -- 84 percent -- with 1.3 percent paid early, 13.5 percent paid during the grace period, and 1.2 percent paid after the grace period. If OMB had not been a full partner with Treasury in these undertakings, and frequently the point man, we would not be where we are today.

This first effort of the President's Management Improvement Program -- Reform '88 -- led to the development of a comprehensive cash management system for the $2 trillion annual cash flow, with $2.3 billion saved in financing costs from 1983 through 1986.

Next Steps in Cash Management

We still have a good bit to do in cash management. Overall, 1987 cash management savings targets amount to $689 million. Working closely with Treasury, our goals are to:

- Bring agency implementation of the Prompt Payment Act much closer to the ideal. We are supporting Senator Sasser's bill to eliminate the 15-day grace period by 1989. We will also increase audits and reviews by Inspectors General to validate agency reports and increase OMB oversight of agency payment practices.

- Increase use of electronic funds transfer (EFT) by 1988 to 70 % of Federal salary payments and 55% of recurring benefits/payments, for savings of almost $99 million annually. In the last Congress we sought legislation to require, with appropriate exemptions, that Federal salaries and wages be paid only by EFT. We will again be transmitting this proposal. A few days ago we launched a test in HUD, Education, and HHS of a system to make vendor payments electronically. The cost to print and mail a paper check is 26 cents versus the cost of 3 cents per electronic transaction. By the end of the year we expect to be making 50,000 payments a month by EFT. Our 1988 goal is to make 40% of vendor and miscellaneous payments electronically. When fully operational, this technique should save up to $18 million per year.

- Convert agency deposits to more effective collection systems (lockboxes) to realize $14 million annually in additional interest savings.

- Reduce recordkeeping. Under current law, banks must honor a check drawn on the U.S. Treasury regardless of the date of issue. As a result, Treasury must retain active accounts on all unnegotiated checks. Checks up to 30 years old are contained in those files. We will again propose legislation to establish an orderly system for paying Treasury checks within six months of issue and issuing replacement checks where needed.

- Incorporate international collections into the automated system for domestic collections. If the pilot program is successful, over $6 billion will be converted by the end of 1988.

- Improve the timing of intergovernmental transfers of funds. Proposed legislation would require that States be charged interest on Federal funds from the time they receive the funds to the time recipients' checks clear the States' banks. Similarly, the Federal Government would pay interest when State funds are used for Federal assistance payments. Full implementation of this proposal would save the Federal Government $50 million in interest costs annually.

- Expand use of credit cards in sales to the public, in paying fees, fines, and debts, by employees for small purchases, by frequent travelers, and to pay benefits to the public. Accepting credit cards will allow the Federal Government to expand its options for collecting funds owed to us. Over half of US households own one or more credit cards and it's time that the Federal Government took advantage of this very attractive means of allowing people to pay their bills to us. This tool will make payments easier, reduce

delinquencies, cut down on bad checks, and improve the information we receive on collections. Credit card technology will also help us make vast improvements in the quality of service to the public. We are moving quickly to make credit card technology part of our day-to-day operations. We have been using credit cards in a modest way for some time in applications like sales to the public. This has been going on for over 10 years at GPO, Smithsonian, and the National Technical Information Service and is also in use at: Archives, U.S. Mint, and at Military Post Exchanges. Credit cards are also being used to collect fines and fees -- Customs accepts credit cards for payment of duties at 20 airports and Justice is pilot testing use of credit cards in payment of magistrates' fines in Tuscon. To date almost 300,000 credit cards have been issued to federal employees who are frequent travelers; this will be expanded to 500,000 over the next two years.

This fall, a governmentwide network will be established to support agency acceptance of credit cards. A number of agencies are waiting at the starting gate -- Customs, Savings Bonds, and Veterans Administration. Forty agencies tell us that they are serious about accepting credit cards. The volume of Federal credit card use by 1991 may be, on average, as much as 130 million transactions annually with total dollar volume of $6.5 billion. By comparison, the Bank of America processes 50 million transactions valued at $ 7 billion annually.

We have just scratched the surface in the use of credit cards. By private sector standards we are far behind the state of the art. Here are some of our ideas for additional applications of this technology to both collection and disbursement situations:

- Credit cards can be used to collect debts; for example defaulted student loans. When Education negotiates a payment schedule with a delinquent debtor, the debtor would pre-authorize a monthly charge against his credit card. Education would contract with a commercial bank to process the transactions. Debtors could also make lump sum repayments and routine payments on loans.

- We could collect taxes with credit cards. IRS is currently seeking statutory relief from a requirement that taxes be paid by cash, check, or money order. When they get authority to use "any commercially acceptable funds transfer method," they will move to use credit cards in collecting delinquent taxes from taxpayers on repayment schedules. They also are working on a method for taxpayers to charge tax payments to credit cards when filing.

- One of the most far-reaching applications of this technology will be in delivery of benefits to recipients of Federal or federally funded programs. There are significant opportunities to reduce or eliminate the cumbersome, paper-intensive systems currently in place, saving taxpayer funds and making life easier for the recipients.

CREDIT MANAGEMENT Was Next on Our List of Improvement Projects as Federal Portfolios WEre Expanding and Delinquencies Were Rising 43 Percent in One Year

Our next major financial management undertaking in Reform '88 was to establish sound credit management and debt collection policies and see that they were implemented.

Where We Were in 1981

In the 10 years preceding this Administration Federal credit programs had tripled, and the growth has continued. Between 1976 and 1986, direct loans increased from $85.9 billion to $ 251.6 billion, mainly in agriculture. Guarantees increased from $217.2 billion to $449.8 billion, mainly in Housing.

In 1981, we were looking at potentially huge write-offs as the rapid growth in these programs was outstripping the agencies' ability to manage them effectively.

We found that there was no consistent process to require credit checks of applicants before granting loans since agencies lacked explicit authority to use private sector credit bureaus to conduct preliminary screening of applicants; loan servicing and debt collection were of much lower priority to Federal managers than making more loans; and loans were maintained ineffectively by Government agencies that failed to use businesslike practices and state-of-the-art accounting systems normally used by private firms. Backlogs were large and records were poor as delinquencies went up 43 percent between 1981 and 1982. We have no data before that year; in fact, we had no uniform data base that accurately described the amount, nature, or age of outstanding delinquent debt. The first uniform credit report, issued in 1982, placed total delinquent debt at $30 billion and, with about a trillion dollars in credit allocated through complicated and politically sensitive programs and growing, we knew we had to move fast.

Actions Taken in Credit Management

o In April, 1981, the President directed the Executive agencies to develop and implement aggressive debt collection programs. Agencies were required to submit plans and

schedules for resolving identified problems. A Debt Collection Unit was set up at OMB to lead the effort. A comprehensive legislative proposal was transmitted to Congress, calling for tougher collection actions, use of private sector techniques, and contracting out of debt servicing and collection.

- In October, 1981, OMB and Treasury issued the first uniform data reporting requirement. Agencies were required to report on collections, delinquencies, write-offs, interest and penalties, and cases referred to Justice for litigation.

- In October, 1982, the Debt Collection Act finally empowered the agencies to use private sector techniques like credit bureaus, private debt collection companies, charging penalties and interest on delinquencies, and offset of federal employees' salaries.

- In 1982, Education (with separate legislative authority) began placing delinquent accounts with private collection agencies. This has since resulted in collections of about $180 million from 1.4 million accounts.

- In March - June, 1983, OMB expanded its oversight to pursue preventive measures to reduce future delinquencies and formed the lead agency debt collection task forces on credit standards, credit approval, accounts management, collections, automated collections, portfolio sales, and credit bureaus.

- In September, 1983, OMB required agencies to report account information to credit bureaus and to use credit reports to prescreen applicants. Negotiations with the industry were initiated to ensure their acceptance of data from government agencies.

- In August, 1984, we issued OMB Circular No. A-70, Credit Policy, which revised Federal credit policy to more accurately portray the hidden costs of credit assistance through direct and guaranteed lending.

- In July, 1984, the Deficit Reduction Act authorized a two year experiment in which agencies recover delinquent debt by offsetting income tax refunds due taxpayers with unpaid federal debts. This pilot project is working well and we are hoping to see it extended for two more years so that IRS can evaluate whether the authority should be made permanent.

- In 1984, IRS implemented a state-of-the-art automated collection system which has increased collections by $800 million annually.

- In May, 1985, we issued OMB Circular A-129 which contains the first comprehensive guidance on servicing and collecting all Government receivables, including those arising from direct and guaranteed loans, grants, and contracts. This Circular also sets policies and standards for credit extension, write-off and closeout of accounts, and overall credit program management, accounting, and reporting. We call this the "Nine Point Credit Management Program."

- In 1985, HUD purchased an off-the-shelf Auto-Call system for loan collection which increase payments by $2.3 million per month.

- In 1985, agencies began to purchase credit reports to use in screening applicants and to place accounts with private collection agencies. Five agencies referred delinquent accounts amounting to $1.3 billion to IRS for offset against tax refunds.

- In October, 1985, GSA awarded the first set of Governmentwide contracts with seven private collection agencies to collect debt delinquent more than six months. Since 1982, Education has maintained its own collection contracts which resulted in $180 million in collections. In one of a number of impediments to good management created by Congress, legislation was enacted in the Continuing Resolution to prohibit use of private collection agencies by the Farmers Home Administration.

- In 1986, the Federal Debt Recovery Act authorized the Attorney General to contract with private attorneys to assist the Justice Department in litigation of delinquent debt cases. This three year experiment will begin with five judicial districts with serious case backlogs.

- In July, 1986, loan asset sale/prepayment guidelines were issued by OMB which emphasize that sales should be without future recourse to the Federal government; that sales not be tax-exempt; that purchasers take responsibility for servicing and collection; that financial advisors be hired; and that sales in securities markets be large enough to assure interest.

- In March, 1987, the Administration proposed credit reform legislation to revamp the way Federal credit is budget, managed, and reported. It would require agencies to request an appropriation for the economic subsidies on new loans and loan guarantees and to help determine the subsidies, suitable new direct loans would be sold soon after they are awarded and new loan guarantees would be reinsured. The legislation would also authorize a new Federal Credit Revolving Fund to finance credit programs and calculate the

subsidies. This legislation combines the best practices of Federal credit policy making and private sector funding and management. It makes sense and was originally proposed in the last Congress by Senators Gradison, Heinz, and Trible.

- o In April, 1987, the agencies began offering loan assets for sale. This is considered a "forerunner" effort to begin the practices included in our Credit Reform proposals.

Where We Are Going in Credit Management

Today, the Nine Point Program is well on the way to full implementation. Within the next two years we hope to achieve an absolute reduction of $5 billion in the $68 billion portfolio of delinquent debt by using the proven private sector techniques we have available even though the total portfolios are expected to increase by $101.9 billion. The nine point program focuses on the three stages of the credit cycle -- awarding, servicing, and collecting loans. All agencies with significant credit programs must fully implement all of the following nine points:

- o Loan prescreening prevents applicants with poor credit histories from receiving Federal assistance and reduces the likelihood of delinquent or defaulted loans. At the beginning of this Administration we found woefully moved from inadequate screening to a situation in which all agencies that extend direct loans now purchase reports from private credit reporting bureaus through a GSA central contract. In 1986, agencies purchased 1.3 million credit reports prior to extending loans, compared to none in 1981. The reports provide agencies with applicants' combined Federal and private credit history. Education student loan programs are exempted because creditworthiness is not an eligibility criterion. No award of Federal funds is permitted to an applicant who is delinquent on a Federal debt until the delinquent account is made current, unless credit extension is required by law. Additional tools to help in prescreening are being developed: the application form for Federal employment will contain a certification of federal indebtedness and procurement procedures will require that contractors be screened.

- Credit bureau reporting allows agencies to report delinquent accounts to private credit bureaus so that information on applicants' creditworthiness may be shared among Federal lending agencies. By the end of FY 1986, agencies reported 1.8 million commercial and delinquent consumer accounts totalling $89.4 billion, approximately 69 percent of the portfolio of $129 billion. In 1981 there was no credit bureau reporting. In 1987, agencies will be required to report to credit bureaus all direct commercial loans and delinquent consumer loans, which is expected to be 4.9 million accounts worth $129 billion.

- Account servicing has been upgraded and automated significantly from its antiquated, ineffective status in 1980. Loan files are now required to include complete information on the history and status of each loan. Commerce will provide a debt management data base system for each of the credit reporting agencies. IRS has automated its collection system, increasing collections by $800 million per year since 1984 and saving $56 million annually in overhead. The HUD Auto-Call system increased payments by $2.3 million per month.

- Collection agencies are now being used to collect seriously delinquent debt. Although agencies have been reluctant to make full use of private collection agencies, to date, agencies have placed 1.7 million delinquent accounts worth $4 billion with contractors. This GSA contract will be renewed shortly and contracts will be awarded on September 30.

- Income tax refund offset was used to collect $471 million in 1986 and 1987. The program was expanded to include nine agencies this year and thus far in 1987, collections amount to $274 million paid by over 560,000 debtors. Of this, $54.7 million was paid voluntarily by 99,329 debtors. Legislation is pending to extend the pilot project through FY 1989, allowing IRS to evaluate the impact of the offset on voluntary compliance. The Administration is concerned that this important authority may lapse without being fully tested and I urge the Congress to give favorable consideration to its extension. We estimate that an additional $700 million could be collected.

- Federal salary offset has already been used by Education to collect over $20 million to date from 15,000 Federal employees and retirees who hold delinquent Federal loans. All lending agencies have completed matching debtor files with OPM and DOD employment rosters. A total of 141,701 employees have been identifieds as delinquent debtors who ow $346.7 million. We expect to collect $125 million from these debtors by the end of FY 1988 by garnishing 15 percent of employees' wages.

- Litigation has been given increasing priority at Justice, with over 27,000 accounts resolved in 1986 with a value of $727 million and cash collections totalling $366 million. Justice is implementing the Federal Debt Recovery Act which authorizes the Attorney General to contract with private attorneys for debt collection litigation. This is important in order to resolve the backlog of 103,000 cases, worth $8.7 billion. We also plan to work with Justice to expand the "Philadelphia experiment" where the U.S. Attorney worked with the U.S. Marshals to impound vehicles belonging to individuals who refused to pay their Federal debts. We think this should be expanded nationwide.

- Write-offs are used to remove uncollectible debt from agency portfolios. In 1986, agencies reported $3.4 billion in write-offs. In 1987 and 1988, agencies are expected to write-off $5 billion in uncollectible debts. Governmentwide standards for documenting write-offs will be issued in August.

- Loan Asset Sales, a pilot program begun in 1987, will reduce government costs by transferring servicing and collection to the private sector, improve the quality of loan origination and documentation, and provide additional data on actual subsidies in Federal credit programs. The program will also assess the methods for conducting effective asset sales -- what are the procedures, issues, and problems. The Loan Asset Sales program provides a bridge between the existing Federally-operated system and a private system as contemplated by the Administration's Credit Reform proposal. The pilot program, as originally planned for FY 1987, involved four major agencies and anticipated receipts of $1.7 billion. Based on Congressional action in the 1986 Reconciliation Act the program was expanded to meet new receipt estimates of $5.3 billion. This required expansion of portfolio sales to $8 billion and addition of more agencies. The program has already achieved its original goal of $1.7 billion -- more than $2 billion has been realized to date in prepayments and more is expected. Most of the major portfolio sales are scheduled for late August and early September. Planning for these sales has required

agencies to update portfolios and establish relationships with financial advisors, underwriters, and loan servicing firms. Six agencies are scheduled to participate in the program -- Agriculture, SBA, HUD, Education, VA, and the Export-Import Bank:

- Agriculture will offer two portfolios for sale -- Rural Development Insurance Fund (RDIF) and Rural Housing Insurance Fund (RHIF). These sales are set for August and September with an expected yield of $1 million for RDIF and $1.7 million for RHIF.

- Education will sell its college housing loans in August; its prepayment offering has already yielded $492 million, significantly more than expected.

- SBA will offer a prepayment options on its disaster loans in mid-August and in early FY 1988 will sell sufficient loans to meet both its 1987 and 1988 targets.

- HUD offered its multi-family loans for sale in early June; the sale was suspended because of an injunction over the extent to which tenant rights may be transferred with the loan. HUD has also offered its community facilities portfolio for prepayment; $9 million has already been received and $11 million will be realized in total in 1987.

- VA's sale of Loan Guaranty Program loans in April did not yield acceptable bids; VA will hire a financial advisor, restructure the sale, and offer the portfolio for sale early in FY 1988.

- The Export Import Bank offered a prepayment option and has collected $855 million to date; they are expected to realize their target of $1.5 billion.

INTERNAL CONTROLS Were Sorely Lacking in 1981 -- They Are Now an Increasing Part of Everyday Life in Executive Agencies

Internal controls are those simple management techniques that prevent fraud, theft, and other diversions or misuse of resources. They include: budget and financial controls to make sure spending takes place only for approved purposed; separation of duties to make it difficult for one person to divert resources; inventories, audits, cash reconciliations; and physical controls.

Steps We Have Taken Since 1981

Since the beginning of this Administration, OMB has worked closely with the agencies, the Inspectors General, and the General Accounting Office to ensure that the necessary protections are in place governmentwide:

- In October, 1981, OMB Circular A-123, Internal Controls, was issued to install control mechanisms in agencies to prevent fraud, theft, and other misuse of government funds.

- In September, 1982, the Federal Managers' Financial Integrity Act was passed to give additional statutory emphasis to internal control efforts.

- During 1983, 1984, and 1985, agencies assessed their internal controls, describing weaknesses, and preparing plans for continuing evaluations and corrective action to correct weaknesses.

- In 1986, oversight of agency activity was strengthened and streamlined, paperwork was reduced, and agencies were directed to target reveiw efforts in specific areas shown by experience to be vulnerable.

Since 1981, agencies have identified 1,521 material weaknesses, some of which had been there for 30 years. Examples of weaknesses include:

- Agricultural loans and food stamps to ineligible recipients;

- Pricing of the DOD procurement program, including spare parts and control over federal property in the hands of contractors;

- Inadequate general ledger control of financial systems at Education; and

- Use of the single-family mortgage program to defraud HUD.

Where We Are Going with Internal Controls

In 1986, all 23 of the major agencies reported their internal control systems in overall compliance. Over 1,000 of the 1,521 reported weaknesses have been corrected and agencies have committed to correcting the rest by the end of 1992. OMB will continue to oversee agency activities and will focus on emerging problem areas. We have asked agencies to make special reviews of weaknesses in four areas -- computer security, timeliness of payments, adequacy of followup on audit findings, and control of erroneous payments. These reviews will focus

agency attention on priority problems and identify opportunities to make improvements and encourage agencies to share successful techniques.

And We've Been Working to Upgrade the Federal Financial Systems for Six Years -- We'll Be Finished in Two More Years with the Largest Financial Management Upgrade Ever Attempted

About the time we started our credit initiative we realized the urgent need for coordinated, timely, compatible financial information supported by modern technology. We had found hundreds of out-dated financial/accounting sytems, many without automation, usually not "on-line" even within the agency, much less to Treasury or OMB. Each agency had independently developed systems for planning, budgeting, accounting, purchasing, payroll, disbursing, real and personal property, grant and program management, and loan portfolio administration. All these systems are costly to develop, maintain, and modify. Every year agencies request millions of dollars to improve and upgrade the systems and we still have a hodge-podge.

Steps We Have Taken in Financial Systems

Since 1981, some essential steps have been taken:

- In September, 1982, the Federal Managers' Financial Integrity Act required establishment of governmentwide standards for both financial systems and information.

- In May 1984, the President's Council on Management Improvement (PCMI) was established to be the "right arm" of Reform '88. The PCMI has been invaluable in numerous financial management projects and has played a crucial role in our financial systems initiative by helping develop a long-term plan for improving the systems governmentwide and supporting the development of the Standard General Ledger.

- In December, 1984, OMB Circular A-127, Financial Management Systems, implemented the Act, requiring that major agencies use a single, program-based system with financial data entered once and shared with subsystems; that new systems be developed on an interagency basis using the best of acceptably priced, contemporary technology; that agencies follow standards for usefulness, timeliness, reliability, comparability, efficiency, economy, and integrity; and that funding be provided only for systems that conform to these objectives.

- After extensive consultation with OMB, Treasury issued reporting requirements in August, 1985, which integrate governmentwide budget data with financial data on resource balances and program cost, where appropriate.

- In September, 1986, OMB issued a Standard General Ledger chart of accounts designed to support both budgeting and accounting systems. The Standard General Ledger reports collections, appropriations, apportionments, budget allotments, and allowances, obligations, advances made, outlays, and applied costs. It also provides uniform accounting for resource balances including funds on deposit with Treasury, accounts receivable, inventories, property, loans receivable, and liability and equity balances. This crucial document was not easy to develop with agreement from all agencies. The Department of Transportation was the lead agency and, with the other agencies and OMB, worked for two and one-half years to complete this project. The project was well worth the effort.

- In February, 1987, OMB entered into a Memorandum of Understanding with Treasury to provide operational support, technical assistance, and cross servicing for administrative accounting and payments to agencies.

Where We Are Today in Financial Systems

Currently, agencies have reported 124 primary accounting systems and 197 subsidiary and program financial systems. Nearly half the major agencies are now using some off-the-shelf systems; most of the remaining agencies are acquiring, or have plans to acquire, off-the-shelf systems. These off-the-shelf systems will allow us to streamline financial systems cheaply and quickly. The standardization and modernization of financial information and systems coincides with the availability of State-of-the-art technology to support the initiative.

We are confident that these systems can be improved because of our success in reducing the personnel and payroll systems. Five years ago, there were 150 such systems; they have been reduced to 69. This effort has cut the costs of system development and operation and provides common data to support consistent Governmentwide evaluation of operations. Agencies with fewer than 6,000 employees are entering into cross-servicing arrangements with agencies with proven, cost-effective systems. Our goal is to consolidate personnel/payroll systems to 28 in 1988 and to 12 systems in 1992.

Next Steps in Financial Systems

In this difficult area, a great deal remains to be done. Working with Treasury and the agencies:

- Our first priority is to develop a Governmentwide financial management information system, consolidating and upgrading the 124 primary accounting systems in the agencies. The Standard General Ledger will be implemented in every primary accounting system by 1988 in support of all routine budget and financial reports. These primary accounting systems will also achieve overall compliance with the Federal Managers' Financial Integrity Act, GAO principles and standards, and OMB regulations.

- The second priority is to consolidate and upgrade agency administrative subsystems, such as personnel, payroll, travel, accounts receivable, debt collection, purchasing, inventory, real and personal property, and administrative payments. The number of such systems will be reduced from 197 to 96 by 1988. Common data standards will be adopted and data will be transmitted electronically to the agency's primary accounting system.

- The third priority is to modernize and upgrade unique agency systems supporting program operations. Where appropriate, generic systems will be developed; for example, a standard loan processing and accounting system will be developed for use by multiple loan programs. Compatibility with the standard general ledger and electronic transmission of data to the primary accounting system will be assured.

- Building on the Standard General Ledger, we will shortly issue uniform requirements for financial information structure and for system capabilities based on the newest and most capable Federal primary accounting systems now in place. This effort is being coordinated by the President's Council on Management Improvement and the Joint Financial Management Improvement Program (JFMIP). These requirements will be the framework for a procurement to implement departmental primary accounting systems.

- Reliance on cross-servicing arrangements will increase. The highly successful National Finance Center, operated by the Department of Agriculture, will provide agencies with cross-servicing support. Treasury will cross-service 16 small agencies by 1988 and 17 more by 1990.

- Agencies will submit to OMB, as part of their budgets, their 5-year plans for financial systems development and operation.

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To Oversee the Completion of Our Financial Management Upgrade, We Are Creating a New Chief Financial Officer

This brings us up to about a year ago when we took stock of our accomplishments and the tasks remaining for the rest of this President's term of office. We saw that we had stopped some of the fiscal hemorrhaging and had created the core of a uniform accounting system. We agreed that the time had come to attack the "front end" of financial management and we took the following steps:

- We are creating a new position of Chief Financial Officer (CFO) in OMB to provide leadership, policy direction, and oversight of Federal financial information and systems, credit and asset management, cash management, internal controls against fraud and abuse, and productivity measurement and improvement. We take this function seriously and have spent considerable effort in defining the job and recruiting the best possible man for the job. I am happy to announce the appointment of Gerry Riso (sitting beside me at the table) to this position. Mr. Riso's breadth and depth of experience in government and in the private sector will help ensure that we achieve our ambitious goals in the next 18 months.

- Even before filling the new CFO position, we reorganized and augmented the OMB staff to increase the emphasis on financial management. We have created three new branches to be headed by senior executives: financial systems and policy, credit and cash management, and productivity. We will continue to increase the staff capability in this area, as needed. We will not, however, create a large financial management bureaucracy within OMB. OMB must continue to set the example for the Federal Government of doing more with less. For operational support we will continue to rely on our "arms and legs" over at Treasury. With Treasury's good track record in cash and credit management and bright prospects for financial systems improvements, we do not feel that our resources are constrained.

- In March we kicked off an ambitious program of financial management reform, described in the President's Management Report to Congress. Under the leadership of the CFO this program will consolidate financial management information systems and upgrade all accounting and financial systems.

- We have developed a close, cooperative working relationship with the Financial Management Service at Treasury to ensure that the governmentwide goals are met for improving financial systems and cash management and collecting debts

owed the Federal Government. Treasury's traditional operating functions have been enhanced with new responsibilities for policy coordination and agency oversight.

- We have forged a linkage with the budget process which we think is vital to ensure that financial management initiatives are appropriately reflected in the President's budget.

- We are planning a major upgrade and simplification of OMB's existing automated system that supports the formulation, analysis, updating, and printing of the President's budget. The current system is fragmented, complex, and relies on out-of-date technology. The new system will be easy and flexible for both OMB and the agencies to use. This system will also facilitate the management of financial data from formulation of the budget, to financial accounting of expenditures, to evaluation of programmatic impacts, to formulation of the next budget. We estimate that this system could cost $2 to $4 million over the next five years; because of the importance of the information and the number of users affected, this would be money well spent. Every well run organization has such a capability but we don't. We will soon.

- With the most effective leadership and oversight in the world, the major tasks before us simply cannot get done without the resources, expertise, and commitment of the agencies. In some cases, the organization of the agencies' financial management staff works against our objectives. Finance and budget may report to different Assistant Secretaries within a Department. Sometimes these organizations are mandated by law. We believe, that if we are to get the job done, we need to elevate, strengthen, and consolidate financial management functions in the agencies and ensure close coordination with budget staff, as we have done at OMB. We have no definite structure in mind; we are currently analyzing the various agency structures. We will probably recommend that agencies be required to consolidate certain critical functions into a Controllership under a single individual and, most importantly, give that individual access to the top levels of the agency, to OMB, and to Treasury. After we have worked with the agencies, we will offer up a proposal in the next few weeks to share with the Committee to build a more substantive and responsive financial management structure.

- In recognition of the interest of Congress, we have upgraded the policy coordination process with the legislative branch. Last August, the Comptroller General, the Secretary of the Treasury, and the OMB Director joined in partnership to improve Federal financial management through the well-established Joint Financial Management Improvement Program (JFMIP).

Much Still Has to Be Done -- But We've Got a Good Start and Plan to Report Annually to the Congress In the President's Management Report

I have said that we are anxious to work with this Committee to make needed improvements. An important aspect of this has to do with ensuring continuity of effort and commitment into future Administrations. I believe that the establishment of the Chief Financial Officer, in combination with our vigorous initiatives will deter future Administrations from dismantling the organization. Our carrying the initiatives I have described as far possible should make their success and value manifest to the next Administration. Members of the Senate will have the means to support excellence in Federal financial management through the confirmation of future Directors of OMB.

In our view the leadership needed to make profound changes in financial management within the Executive Branch can only come from a combination of the Office of Management and Budget. working with Treasury as the lead "line agency" to complete the massive upgrade of financial and budget systems. Separating the financial management function from the budget function would seriously weaken financial management by preventing the integrated and coordinated effort between management and budget staffs needed to solve our problems and OMB is in a better position to negotiate with agencies than is Treasury. When the issues are tough and controversy high, only OMB can bring the power of the budget and, if necessary, the White House to bear. Ultimately, the financial management role for Treasury will increase, including the CFO role. But, to transfer this important responsibility to an agency, even one as outstanding as Treasury, at this time, would be a serious mistake with the potential for setting back by years the efforts we now have underway.

In summary, we ask you to judge our effectiveness by our accomplishments and our plans, not our organizational structure. I believe that we should not be worrying about the organizational structure just now. Much more important work lies before us. We should be talking about our ideas for making needed improvements. We certainly have no monopoly on the ideas -- we need your input. We would welcome your reaction and that of GAO to our plans described in the President's Management Report. In fact, this Committee could help ensure continuity of effort in improving financial management by legislating the Management Report. This report should not me merely just another report, but, instead, a dynamic document which elicits feedback from the Congress.

Let me conclude, Mr. Chairman, by assuring you of my continuing interest in working with this Committee. We are in agreement on the goal of improved financial management of the Federal Government. Unfortunately, this proposal will not help us reach that goal.

Mr. Chairman and Members of the Committee: that completes my statement. Now, I'll be happy to address any questions you might have.

"Federal Financial Management Reform Act of 1987"

Testimony
to
Committee on Governmental Affairs

by
Senator Daniel J. Evans
July 23, 1987

Mr. Chairman, I appreciate this opportunity to discuss with you and other distinguished Committee members the financial management practices of the Federal Government.

Before I delve into comments on a critically important issue that registers less than a blip on political popularity polls, I want to compliment the Chairman for scheduling this hearing and introducing the "Federal Financial Management Reform Act of 1987". I am an enthusiastic cosponsor of this legislation, which is a necessary step if we are to ever bring order to our financial affairs.

I also wish to express my appreciation to the U.S. Comptroller General, Charles Bowsher, for his valuable leadership role in improving our antiquated financial management practices.

The need for improved federal financial management becomes more apparent with each new budget season. Currently, the Federal Government uses 154 separate accounting systems. Each one is tailored to the needs of the particular agency using the system. There is little coordination of financial information. Is it any wonder we have difficulty deciding how to spend money next when we are not sure how we spent it last year?

The result is a convoluted web of misinformation that is at best an opaque window on the financial status of the Federal Government. Financial "investigations" turn up billion dollar "slush funds" or, even worse, conclude that some funds just can't be accounted for.

The proliferation of accounting systems and the absence of credible financial data highlight the desperate need for many of the elements included in the "Federal Financial Management Reform Act". The specific elements of greatest importance are establishing a centralized financial manager for the Federal Government as a whole as well as individual agency comptrollers, and moving toward agency and government-wide financial statements that conform with Generally Accepted Accounting Principles (GAAP).

Mr. Chairman, I clearly understand the bounds which you must operate to achieve bipartisan support in both the House and the Senate. However, I have a couple of suggestions. First, our budget problems are upon us now, so any process that will move the Federal Government more quickly to financial statements that conform to GAAP standards I will support.

Second, as you begin fine-tuning the legislation you are discussing today, please take note of the proposal I introduced yesterday, "The Federal Capital Budget Act of 1987". The legislation simply seeks to identify, define and present separate operating and capital components of the Federal budget while maintaining a unified budget. It is not yet a perfect piece of legislation, and I'm open to suggestions.

Let me reiterate, Mr. Chairman, that this legislation seeks to retain a unified budget. This proposal does not attempt to reduce the Federal budget deficit through more smoke and mirrors by taking capital expenditures off-budget. A unified budget is maintained. This legislation seeks to provide what the existing budget does not -- adequate information on the revenues, expenditures, surplus/deficit amounts, and financing requirements for capital activities of the Federal Government. It also attempts to provide a distinction between capital and operating activities in a manner which does not hinder indentifying the resources needed to meet the Government's capital infrastructure needs.

The private sector and a large majority of state and local governments have set a financial example of the direction the Federal Government should follow. The benefits of a capital budget are many:

- Focuses attention to a greater degree on the deteriorating physical infrastructure of the nation and allows us to make more rational investment decisions;

- Promotes intergenerational equity by burdening future generations with debt service only for activities that provide future tangible benefits (capital);

- Provides more equitable budget treatment of capital activities by avoiding the current "front-end loading" of the full costs in the first year; and

- Shows that borrowing to finance capital investments is accompanied by an increase in the nation's assets.

A capital budget that remains part of the unified budget, may also help us better define "what is a balanced budget"? As we move in the direction of a balanced budget, we need to more

fully explore whether it make sense for the Federal Government to balance its annual budget under current bookkeeping practices.

These dual efforts to improve federal financial management and better identify capital activities will directly determine the quality and clarity of the financial information that we use to make budget decisions. Informed decision making demands a variety of broad improvements to our current practices which include:

- Requiring disclosure of all Federal credit including loan subsidy costs;
- Identifying trust fund amounts, including trust fund surpluses, as well as clearly specifying liabilities for future payments;
- Ensuring that all Federal programs be included within the unified budget and total expenditures, not just net, should be shown; and
- Requiring all agencies and the Government as a whole to submit consolidated financial statements which have been subjected to independent audit.

I would like to note, Mr. Chairman, that each of these improvements are common with almost every State government in the United States.

At least part of the improvements can come from emulating certain practices in the private sector, where companies must maintain books of sufficient coherence that investors are not misled and stockholders can ascertain what management is up to. Congress should consider itself as the Board of Directors of the Federal Government and with this responsibility ensure that citizens living outside the beltway understand how their government fares financially.

If a study completed by Michael Boskin, Professor of Economics at Stanford University, is any indication, we are doing a good job misleading our Government's stockholders. In his paper, Dr. Boskin compares private sector corporate financial status under Generally Accepted Accounting Principles (GAAP) to the same numbers cast under what he refers to as "Generally Unacceptable Federal Government Accounting Procedures". He concluded that if General Motors had used Federal accounting procedures in 1984, they would have shown a net loss of $4.82 per share.

But according to GAAP, they made more than $14 profit per share during that year. These are two sets of books using exactly the same figures. It is time the public -- who hold all the stock in this government -- have a better idea about what their elected managers are doing.

Mr. Chairman, I ask that the paper prepared by Dr. Boskin be printed in the Committee Record.

In closing, Mr. Chairman, Congress continues to debate reducing the Federal budget deficit, budget process reform and more. However, all this may be to no avail, unless we recognize the most fundamental problem -- the lack of accurate, timely, and comprehensive federal financial information.

GAO

United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

October 7, 1987

The Honorable Senator John H. Glenn
Chairman, Committee on Governmental
Affairs
United States Senate

Dear Mr. Chairman:

As you requested during hearings on federal financial management before your committee on July 23, 1987, the enclosed material is provided for the record.

It includes information which we have obtained from various state government officials describing actions taken over the past several years to improve their state financial management. Rather than us characterizing the state experiences, we are providing actual letters, report excerpts, news releases and so forth which we obtained, so the hearing record might reflect the states' own descriptions of their experiences.

We would be pleased to discuss this material with you at you convenience. Also, as we get additional material we will be glad to provide it to you.

Sincerely yours,

John R. Cherbini
Deputy Director

Enclosures - 9

ENCLOSURE I FLORIDA ENCLOSURE I

STATE OF FLORIDA

OFFICE OF THE AUDITOR GENERAL

CHARLES L. LESTER, C.P.A.
AUDITOR GENERAL

June 16, 1987

TELEPHONE
904/488-5534
S/C 278-5534

Mr. Frederick D. Wolf, Director
U. S. General Accounting Office
Accounting and Financial Management Division
Washington, D.C. 20548

Dear Mr. Frederick:

This letter is in response to your request, dated May 21, 1987. Your letter and the attachments to it addressed a myriad of issues at the Federal level. However, your request was limited to our experiences or views regarding the successes and difficulties encountered in upgrading Florida's financial management systems. It would be presumptuous of me to comment on many of the issues raised in your letter; but, I do welcome the opportunity to share with you our experiences and views regarding Florida's management systems.

Today, Florida's State government has one accounting system prescribed by law. It is known as the "SAMAS" accounting system (State Automated Management Accounting Subsystem). Every State agency, institution, or other State organizational unit uses the SAMAS system. This means, specifically, that each entity: (1) operates under the same accounting manuals; (2) uses the same chart-of-accounts; (3) codes all transactions using the same coding system; (4) uses the same data center for their accounting data processing; and (5) receives technical advice from the same support group.

In Florida, all fiscal and audit personnel attend the same training courses on the SAMAS system, i.e., they all "speak the same language". Furthermore, transactions are, for the most part, consistently recorded, classified, and summarized among the State's agencies, regardless of agency size, nature, or geographic location.

From a management perspective, the uniform SAMAS system provides several benefits. These benefits include: the system provides control and analysis of similar types of transactions; the system permits timely management reporting; and, the system permits an overall assessment of management stewardship of public resources.

Because of this one management accounting system prescribed by law, Florida was able to electronically combine the operating accounts of all State agencies, departments, and other organizational entities into the various required reporting funds. Thus, for the 1983-84 fiscal year, and each year thereafter, Florida has centrally prepared financial statements on the entire

State. When Congress enacted Public Law 98-502, the Single Audit Act of 1984, Florida opted for early implementation. Florida's first "Single Audit" was conducted for the 1984-85 fiscal year. That audit underwent a quality assessment review by a team of representatives of the Federal Government in February 1987. We were advised by a letter from our cognizant agency (the U. S. Department of Education, Office of Inspector General), dated April 16, 1987, . . . "We concluded that the audit was performed in accordance with the Government Auditing Standards and met the single audit requirements. The working papers fully supported the report, and all instances of noncompliance were included in the report."

The importance of the concept of one accounting system for all State agencies cannot be overemphasized. Without it, Florida's successful early implementation of the Single Audit Act would have been much more difficult, to say the least. The history of Florida developing and implementing the one management accounting system for all agencies and departments spans more than two decades. Attachment A to this letter contains a synopsis of this history.

The key to Florida's success in developing a central management accounting system, from the very beginning, was the emphasis given the matter by the Legislature. As can be seen from Attachment A, the Legislature enacted motivating legislation at critical points in the evolution of Florida's central accounting system. The Legislature did not hesitate to mandate deadlines when necessary. This legislation was often very unpopular with the agencies and departments.

If I may briefly offer my views on the issue of a centralized management accounting system at the Federal level, I believe that such a system is a necessity for the future. Obviously, obtaining such a system is going to be a long and slow process, but well worth the effort. There must be an agency charged with the coordination of the development of the system. That agency must also participate in the implementation with all other agencies. That designated agency must have the full support of the Congress. Congress must enact key legislation at critical points, and must not hesitate to enact mandated deadlines. Based on our experience, agencies will find a million reasons why deadlines cannot be met. They must be constantly (and strongly) encouraged to meet those deadlines.

Thank you for the opportunity to respond to your inquiry. If I can be of further assistance please do not hesitate to call or write.

Sincerely,

Charles L. Lester

Charles L. Lester, C.P.A.
Auditor General

ATTACHMENT A

SYNOPSIS OF THE HISTORY OF FLORIDA'S MANAGEMENT ACCOUNTING SYSTEM

-- In 1961, and again in 1965, the Florida Legislature recognized a need for a uniform accounting system for all agencies and departments of State Government.

-- In 1967, the Legislature created the Florida Electronic Data Processing Management Board. The Board, among other things, and in consultation with the Auditor General, was to develop an overall plan for a State central accounting system.

-- In 1968, a standard accounting code structure and a basic "Departmental Accounting System" (DAS) was developed. This first version was used to determine feasibility of design and to resolve difficulties encountered.

-- In July 1971, the first version of the Departmental Accounting System (DAS) was released to State agencies and departments on a volunteer basis. Although DAS was satisfactory, the size and complexity of such a system along with rapid changes in the data processing industry created a continuous need for redesign and modification of the system.

-- In July 1974, a revised DAS system was introduced. This version provided terminal input, voucher preparation, and vendor identification. An experimental financial reporting system was also developed in 1974.

-- By 1976, fourteen State agencies and departments (out of about 30) were using the DAS system.

-- The 1977 Legislature mandated that the State's central accounting system was to be fully operational in all agencies and departments by July 1, 1980. To meet this mandated deadline, a data center was constructed, a communications network was established, an implementation plan was developed, and agency personnel were trained.

-- In 1980, the Florida Legislature passed the Florida Fiscal Accounting Management Information System Act. The intent of this Legislation was to develop a Statewide management information system using a unified approach. The legislation prescribed several subsystems including: a revenue subsystem; a planning and budgetary subsystem; a purchasing subsystem; etc. One of the subsystems was evolved from the original DAS, i.e., the State Automated Management Accounting Subsystem (SAMAS).

-- By July 1980, all State agencies and departments were using SAMAS except for the State universities and the Florida Department of Transportation. By this time, SAMAS had undergone numerous design changes and improvements.

-- By July 1983, all State agencies and two State universities (of nine) had implemented SAMAS.

-- For the 1983-84 fiscal year, combined Statewide financial statements, using mostly data obtained from SAMAS, were prepared, audited, and published. That is, the funds and accounts of State agencies and departments were centrally electronically combined by the State Comptroller, and audited by the Auditor General.

-- By July 1986, all State agencies and universities had implemented SAMAS.

-- The evolution is not over. System changes and improvements are made frequently. The enactment of the Single Audit Act of 1984 made us gravely aware of the need for a complete central method of extracting financial data about Federal financial assistance programs (by CFDA numbers) administered by State agencies and departments. A system to do this is currently being implemented.

ENCLOSURE II

ILLINOIS

ENCLOSURE II

Roland W. Burris
Comptroller
State of Illinois

201 State House
Springfield, Illinois 62706
217/782-6000

August 10, 1987

Ms. Helena Sims
NASACT
Suite 611
444 North Capitol Street, N.W.
Washington, D.C. 20001

Dear Helena:

Recent comments made by Mr. Charles A. Bowsher stated that federal government fiscal managers need to make greater strides towards financial management improvements and recognized how state governments have greatly improved their fiscal management operations and have been in the forefront of government fiscal reform over the past two decades. It's absolutely true that State Comptrollers and Auditors have taken a leadership role in recent years in establishing governmental financial reporting standards and in applying those standards. For example, members of the National Association of State Auditors, Comptrollers and Treasurers were instrumental in creating and supporting the Governmental Accounting Standards Board. That board is now headed up by Mr. James Antonio, a former State Auditor from Missouri.

More than 30 states report moving to GAAP financial reporting and underlying systems; several have gone further and adopted GAAP budgeting. Seven states have earned the coveted GFOA Certificate of Achievement for Excellence in Financial Reporting; eight additional states have submitted their Comprehensive Annual Financial Reports for review.

Illinois was one of the first states to prepare and distribute comprehensive annual financial reports prepared in accordance with generally accepted accounting principles. Beginning in 1981, Illinois has compiled and distributed complete GAAP financial statements. The motivation for Illinois to undertake this additional effort included:

- Improved financial reporting and management information, so that financial information would be less subject to manipulation and would be comparable from year to year and with other states.

- Protection of the State's bond rating, thereby saving millions in interest costs.

- To serve as a basis for establishing accountability and for the State's Post-Audit Program.

- To provide necessary information and controls for compliance with the Single Audit Act.

During the years since 1981, the GAAP data accumulation and reporting process has been continually refined and expanded. Beginning in 1985, the Office of the Comptroller undertook to develop an expanded and enhanced statewide accounting system which would generate financial information in accordance with generally accepted accounting principles as well as in accordance with budgetary requirements. This effort is well underway and should be completed by 1990, at which time it may serve as a model for other statewide accounting systems.

Comptroller Burris has suggested that I forward to you the following exhibits delineating the arguments for and the useful benefits of GAAP-based fiscal reform.

(1) "A Special Inquiry: Need for a New GAAP-Basis Central Accounting System for Illinois State Agencies" authorized by Mr. Robert Cronson, Illinois Auditor General (April 30, 1985) describing the advantages of converting accounting operations to GAAP basis, among other things (a subsidiary piece, "Games Government Accountants Play" by Robert N. Anthony, examines the general benefits of such an accounting conversion);

(2) A recent magazine article, "States and GAAP", highlighting GAAP conversion by individual states;

(3) An Arthur Andersen study, "Sound Financial Reporting in the U.S. Government", emphasizing the federal governmental advantages to GAAP-basis reporting;

(4) The official Government Accounting, Auditing and Financial Reporting (GAAFR) argument for GAAP-basis reporting conversion;

(5) The draft document of the "Preferred Accounting Principles for State Government" and "Objectives of Financial Reporting" by the Government Accounting Standards Board (May 1987);

and (6) a compendium of official reports routinely generated by the Illinois State Comptrollers Office, including the 1986 Illinois Annual Report, Illinois Annual Report: A Detailed Report of Revenues and Expenditures (1985), Illinois Appropriations (1985), and recent issues of Illinois state payroll statistics, state fund balances and monthly report.

I trust that the enclosed information sufficiently clarifies the inherent advantages of GAAP-fiscal reform and its useful by-products.

Sincerely,

Jimmie Voss
Assistant Deputy Comptroller

Enclosures

ENCLOSURE III MARYLAND ENCLOSURE III

National Association of
State Auditors, Comptrollers and Treasurers

PRESIDENT
Joan Finney
State Treasurer
700 Harrison
Topeka, Kansas 66601
(913) 296-3172

August 20, 1987

John Cherbini
Deputy Director
Accounting and Financial Management Division
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear John:

Attached are excerpts from a memo I received from J. Basil Wisner, Chief Deputy Comptroller of Maryland, in response to my request for information explaining why the state converted to GAAP. Even though the memo is almost seven years old, it provides some interesting insights into the advantages of using GAAP.

Sincerely,

Helena Sims
Washington Office Director

HS/agw

Enclosure

First Vice President: Thomas Hayes, Auditor General, California. *Second Vice President*: Earle E. Morris, Jr., Comptroller General, South Carolina. *Treasurer*: Mary Ellen Withrow, State Treasurer, Ohio. *Secretary*: Edward Renfrow, State Auditor, North Carolina. *Immediate Past President*: Roland Burris, Comptroller, Illinois.

Relmond P. Van Daniker, Executive Director for NASACT, 2401 Regency Road, Suite 202, Lexington, Kentucky 40503, Telephone (606) 276-1147, and 444 N. Capitol Street, Washington, DC 20001, Telephone 202-624-5451

EXCERPTS FROM:

STATE OF MARYLAND
COMPTROLLER OF THE TREASURY
STATE TREASURY BUILDING
P. O. BOX 466 — PHONE 269-3305
ANNAPOLIS, MARYLAND 21404

LOUIS L. GOLDSTEIN
COMPTROLLER
J. BASIL WISNER
CHIEF DEPUTY COMPTROLL
ROBERT L. SWANN
ASST. STATE COMPTROLLER

September 22, 1980

TO: Honorable Louis L. Goldstein

FROM: J. Basil Wisner

I have already had some very lengthy conversation with Mr. Clappenger on the reasons why we have done some of the things we have done and the financial impact on those decisions so he will be coming to us with quite a bit of information that I have provided.

The following is basically the same scenario that I have provided to him.

In 1973-74 Maryland had an accounting system that was somewhat a manual operation in that it consisted of accounting machines with ledger cards which did not lend itself to a more sophisticated system utilizing what was available via computers. This was the beginning of a long-term plan to improve Maryland's financial reporting. The first phase was the development of a computerized system which took advantage of the utilization of a mini computer tied into a large scale IBM computer. This system was a statewide accounting system "STARS" which was developed by our own personnel working in cooperation with the National CPA Firm of Peat, Marwick and Mitchell.

Maryland was the first state to develop a system of this magnitude which is now being marketed in several other states. As a matter of fact, the project manager on our development was recently moved to the State of California by Peat, Marwick and Mitchell to implement basically the same system that we have at the fee of approximately three and one-half million dollars. This system has been implemented in Puerto Rico and it is my understanding that the States of Hawaii and South Carolina and possibly several other states are looking at it with great interest.

This system became operational on July 1, 1976 which was the beginning of our 1977 fiscal year. While this was occurring, New York City faced its financial calamity and those persons involved in the Municipal Bond Market as well as the investment market for the first time began to question the validity of financial reporting by States, Counties, major cities, etc. Legislation began to appear in Congress mandating that SEC guidelines be mandatory for anyone marketing in the municipal bond market.

While this legislation has not passed, we in Maryland recognized the need to respond by improving our financial disclosures, keeping in mind that it is better to respond to change based upon your own admonition rather than the demands dictated by Congress. About the same time, the Municipal Officers Association developed a program for cities to utilize for financial disclosure. While the program did not especially lend itself to states, we in Maryland took that information, along with other information we were able to obtain and in June, 1976 issued what probably was the most comprehensive financial disclosure statement issued by any state coming to the bond market up to that time.

We have continued that practice ever since and have attempted to improve each time we publish a full financial disclosure in conjunction with a scheduled bond sale.

Up to that time, Maryland had been following the practices of most of the other states, in that we were reporting on a cash-modified accrual system. As a result of the New York City problems, bond analysts appropriately asked the question, if there were any surprises that had not been reflected or in more technical terms, were all liabilities being recorded because under a cash-modified accrual system all cash is recorded, all expenditures which had been made by the end of the fiscal year recorded and any contractual obligations which had been made, but not completed are recorded. Things which are not included under this type of accounting system would be payments where a liability has been incurred at the end of the fiscal year but the payment made in the subsequent year, such as, employer's

share of social security which was due as of June 30, but not paid until sometime in July, or medicaid payments where the services had been rendered by a hospital but the bills not processed for payment, also items such as refunds where income tax withholding received between January and June and recorded as cash receipts included refunds to be made sometime in the following calendar year as a result of over withholdings.

The accounting system that assures the analyst and other municipal bond market people that the financial statements properly reflected all financial considerations is Generally Accepted Accounting Principles (GAAP). We knew our financial status in Maryland was a good one, but because of the questions raised in the New York City situation, we needed to demonstrate what we already knew and that this could best be accomplished by reporting Maryland's financial position in accordance with GAAP independently audited by a nationally recognized CPA firm.

While the State of Tennessee had also prepared financial reports in accordance with GAAP, Maryland was the first state to come to the municipal bond market in January 1980 with financial reports prepared in accordance with GAAP independently audited and certified by an independent accounting firm. We believe this is the first phase of what will lead to a revolutionizing of state financial reporting.

We in Maryland have had numerous conversations with some of the financial people in other states as they attempt to follow in our footsteps. The State of New York is working diligently to convert to GAAP which they anticipate will take 3-5 years. Several others are attempting the same thing.

We know for a fact that some of the independent study groups looking at State and Municipal Accounting have utilized Maryland's Annual Report for fiscal year 1979 as a guideline or model to follow. Also, the Office of Revenue Sharing has advised certain states to look at Maryland for assistance in what should be done.

While it is very difficult to properly measure the financial advantages to be obtained by the conversion to GAAP and an independent audit, we know that they are there. For example, the State of Minnesota which is a Triple "A" rated State like Maryland, having a lower per capita state debt than Maryland, sold a comparable sized General Obligation Bond Issue one day prior to our sale.

If Maryland had received the rate that Minnesota did, Maryland taxpayers would have had to pay an approximate additional $600,000 in debt service costs over the life of the bonds. I have to believe that the conversion to GAAP and the independent audit contributed to the fact that Maryland received such a low interest cost in a chaotic bond market. As a matter of fact, I believe our bond sale was the lowest rate any state has received during calendar year 1980, but this should be verified.

The comments in the market place by rating agencies and bond syndicate personnel certainly indicate what Maryland has done was the right thing to do and that other states should be following our efforts.

The significant thing to remember about GAAP is that all financial data is recorded in accordance with established guidelines which provides the analyst with the ability to compare more appropriately one state to another, also it takes away the possibility of any element of surprise later on because the analyst knows that the State using GAAP must record at the end of the accounting period all obligations and liabilities regardless of when they are going to be paid.

When you follow GAAP,methods to be employed are already established and the State administrators are prevented from gamemenship or an attempt to make their financial record look good when in fact they may not be. This was the New York City situation. The financial statements didn't look that bad prior to 1975, but then they didn't contain all the liabilties which GAAP requires. The independent audit certifies that the financial records are correct and adds validity to the statements and provides assurance to the investors that they have been examined in accordance with the established audit guidelines (GAAS).

The investor recognizes the independence of the National accounting firms or audit from the issuer which provides a higher degree of confidence in the investor's mind thus hopefully, a lower interest rate to the issuer because the risk factors are reduced.

Some people make the argument that the Legislative Auditor can do an equally adequate job and where his staff is one of high quality CPA's, the argument is probably a valid one but the investor does not know the quality of the State's staff or the degree of independence, therefore, the investors increased concern would probably dictate a little higher interest rate and thus a greater cost to the taxpayer of a state.

Everything that I hear amongst the states, the Municipal Finance Officers Association, the Federal Revenue Sharing Officials and those associated with the municipal bond market indicates that Maryland is being looked at as a leader in the whole area of financial reporting and financial disclosure.

If all these people are as sincere as they have indicated to me, Maryland is travelling on the proper course, a course that others are trying to emulate.

I am very proud to be part of the team that has and is making all this happen.

ENCLOSURE IV NEW YORK ENCLOSURE IV

NEWS

FROM THE OFFICE
OF
NEW YORK STATE COMPTROLLER EDWARD V. REGAN

FOR RELEASE: IMMEDIATE: WEDNESDAY, JULY 29, 1987

State Comptroller Edward V. Regan today released the State's annual financial statements for the fiscal year ended March 31, 1987, which show a decrease in the General Fund accumulated deficit for the second consecutive year.

The decrease came about as a direct result of an annual Generally Accepted Accounting Principles (GAAP) operating surplus of $1 billion in the General Fund, Comptroller Regan reported.

The statements, which were delivered to the Governor and Legislative Audit Committee today, show that the State's accumulated General Fund deficit under GAAP had decreased from $4.281 billion as of April 1, 1986, to $3.279 billion as of March 31, 1987. The $1 billion operating surplus in the State's General Fund compared to a $156 million operating surplus a year earlier.

"It should be emphasized that the surplus occurred primarily because of increased personal income tax revenues, reflecting taxpayer behavior as the result of the Federal Tax Reform Act of 1986," Comptroller Regan said. "Much of the revenue is potentially nonrecurring. It may, in fact, represent revenues that would otherwise have been earned in 1987 or in later years. Prudence dictates that such revenues should not be used to meet recurring State operation requirements."

The Comptroller noted that this is the fifth consecutive year the annual financial statements, reflecting the State's financial condition, have been certified as to their reliability by independent outside auditors (Peat Marwick Main & Co.) retained by the State Legislature. "This demonstrates the effectiveness and accuracy of our accounting and financial reporting system, which is the largest and most complex of any state," he said.

In 1980, the Comptroller's Office converted the archaic way the State maintained its accounts and reported its finances to the Governor, Legislature and the public, to a modern state-of-the-art GAAP-based accounting and financial reporting system.

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Marvin G. Nealon, Press Secretary to The Comptroller/A. E. Smith State Office Building, Albany, New York 12236
Albany Office: (518) 474-4015 Home: (518) 482-3680
New York Office: (212) 587-6006

Excerpt from: State of New York
Annual Budget Message, 1987-1988

Working Toward Management Excellence

Operating our State under a spending cap means that, as managers, we must have better methods to monitor our activities and revisit our prior decisions. We must have assurance that we are spending our limited resources as we intended; that we are obtaining the most service we can from each dollar expended; that we are doing more with less.

For we have learned that just spending money on a problem provides no incentive for accountability or analysis.

We must continue to develop these methods — methods to monitor and evaluate ourselves, methods to increase the effectiveness of our operations and organizations, methods to enhance management accountability.

In these ways, we can demonstrate that our priorities can be met without simply spending more — that we must not simply expect more government, but rather a government that does more.

New York State has always been in the forefront of governmental efforts to manage more effectively. Our program budgeting system is designed to give State agency managers the flexibility they need to be held accountable for the products of their management. Our reporting and accounting systems allow us to identify management issues and problems and plan corrective actions; and those systems give us the means to hold agency managers accountable.

Perhaps most dramatic of all our continuing efforts at management improvement have been our investments in computerization and information systems. Significant resources have been dedicated in all areas of State government to improve our ability to monitor ourselves and measure the effectiveness of our programs.

For example, the Systems Improvements for Enhanced Community Safety has the dual objective of standardizing prisoner/parolee information collection and consolidating and providing that data to all appropriate parties, including police, prosecutors and correctional agencies. The Welfare Management System provides local social service districts with a uniform means of registering clients, determining eligibility, projecting grants needs and making actual payments. In addition, it provides our managers with the ability to view the entire system of public assistance from the appropriate Statewide perspective.

The Case and Resource Tracking System at the Department of Taxation and Finance, another multi-year management improvement commitment, not only provides accurate and reliable information on outstanding liabilities, but also makes our program managers accountable for collection of those liabilities by identifying the most effective enforcement measures.

Our new accrual accounting system uses computer technology and Generally Accepted Accounting Principles to define more appropriate methods of financial measurements. This state-of-the-art system provides State managers with clear financial fund structures, uniform and accurate fiscal program data, and consistent measures of revenue and expenditures.

As impressive as these accomplishments may be, we can still do more to improve our management capabilities, and to spend our resources even more wisely and efficiently.

We can do more with less — and much more with less growth in spending. More effective use of our resources will allow us to improve services, meet challenges, confront emerging problems and move beyond the simplistic response of just increasing spending for each endeavor.

We must heighten our commitment to a strategy of management excellence.

We can improve our efficiency, and make our operations more productive.

Excerpt from: Governor Mario Cuomo's Message to the Legislature, January 7, 1987

Tax Reduction, Improved Financial Management and the Expenditure Cap

The third year of our tax cut began just seven days ago. By the end of this year, those cuts will have returned $3.1 billion to New York taxpayers. We have enacted two successive budgets in accordance with the demanding standard of GAAP. We have begun a multi-year program to eliminate the State's $1.5 billion lag in pension payments, funded in part by the debt service savings achieved by reducing the spring borrowing by $800 million.

In response to these steps, both our long-term and short-term credit ratings have been upgraded. These accomplishments are even more impressive when we remember that four years ago we faced a projected $1.8 billion deficit, a deficit that the Legislature and the Executive acted quickly and responsibly to close.

During the next four years, I will establish financial management goals which are even more stringent. We will continue to present budgets which are balanced in accordance with GAAP, and this year, for the first time, I will submit for your consideration a budget crafted in accordance with an expenditure cap. By limiting spending to less than the growth in the State's tax base, we will make it possible to reduce taxes further for all New Yorkers. While this year's budget is tightly balanced, the discipline created by this spending cap, together with steps to reform our personal income tax, will make it possible to reduce substantially the top rate on earned income in the immediate years ahead.

Budgeting within the limits of a spending cap will be the culmination of a series of steps I have taken to limit the growth of State government. During the last four years, we have brought the increase in the rate of spending down from 10.8% in 1984-85 to 7.5% in 1986-87, and we must carry that trend forward. I am therefore proposing that we enact a spending cap that will limit growth in the budget, and guarantee that the share of New York's personal income devoted to State government will shrink. My plan for spending limitations will achieve these results without locking us into a rigid and inflexible framework, and will create the margin we will need to reduce taxes or offset the State's accumulated deficit even faster than we have done in the last four years.

In addition to limiting the rate of growth in spending and creating the framework for further tax cuts, we will take other key steps along the path to improved financial management. Last year, we reached agreement with the Employee's Retirement System to amortize the two-year payment lag in pension payments over a seventeen year period. As a result, we were able to shift the date of disbursement of our pension payment, and reduce our spring cash flow borrowing by $800 million, from $4.3 billion to $3.5 billion.

STATE OF NEW YORK
EXECUTIVE CHAMBER
MARIO M. CUOMO, GOVERNOR

Press Office
518-474-8418
212-587-2126

FOR RELEASE:
IMMEDIATE THURSDAY
JANUARY 10, 1985

STATEMENT BY GOVERNOR MARIO M. CUOMO

I am pleased to be here this morning with Comptroller Ned Regan and Ray Schuler to announce joint support for comprehensive financial reform to be enacted during this session of the Legislature.

The program includes the elements long advocated by the Comptroller and my commitment to make those proposals real in presenting my 1985-86 budget and legislative program.

The proposals will be in three parts.

First, presenting my 1985-86 budget in accordance with GAAP balance — providing more than $300,000,000 in appropriations to insure that balance — and providing no increased rollovers.

Second, a constitutional amendment requiring that executive budgets be submitted and adopted in accordance with GAAP balance. This amendment would be passed by the Legislature this year, again in 1987 and put before the people later that year.

Third, I will work with the Comptroller to introduce an omnibus financial reform bill. It will include provisions to require GAAP balance during the interim time before the constitutional amendment is passed by the people. It will cap spring borrowing at $4.3 billion. It will provide for a long term plan to reduce the accumulated deficit and spring borrowing through the use of a sinking fund to begin to rollback prior-year rollovers in education aid, as proposed by the Comptroller.

The objective of these efforts is to reduce the "unnecessary and wasteful" spring borrowing by $2.3 billion.

The benefits of these proposals are the elimination of rollovers, and paying as we go so that we spend only what we can afford.

The program will be difficult and require discipline because it means spending money for "reform" rather than hard services or cutting taxes. However, the benefits in the future are reduced expenditures and a possibility of further tax cuts.

(more)

I am pleased also by the support from the Business Council of New York State, represented by its President Ray Schuler who is here today, for the objectives of financial reform that the Comptroller and I are putting forward. As I said yesterday, the priority that supports all other priorities is economic development. And a sound fiscal system that relies less on borrowing massive amounts of money from the public is an important ingredient in insuring a favorable economic climate. In turn, a favorable economic climate makes business expansion and growth, which means more jobs on the private payroll.

There are many specific issues relating to expenditures and revenues which I am still in the process of reviewing this week and next week.

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83-463 0 - 88 - 7

ENCLOSURE V PENNSYLVANIA ENCLOSURE V

COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

HARVEY C. ECKERT
DEPUTY SECRETARY FOR COMPTROLLER OPERATIONS
OFFICE OF THE BUDGET

August 13, 1987

Ms. Helena Sims, Director
NASACT Washington Office
Hall of the States
444 North Capitol Street, N.W.
Suite 232
Washington, D.C. 20001

Dear Helena:

In response to your request concerning the benefits realized by the Commonwealth of Pennsylvania through the utilization of a chief financial officer, the following comments are submitted:

1. Reorganization

Prior to 1980, fifteen (15) comptroller offices were administered and funded through the departments they serviced. During that period, organizational adjustments were imposed with minimal interaction from comptrollers. Thus, a chief financial officer was appointed and the Comptroller Operations organization was established.

In 1980, comptroller/agency relationships were once again adjusted with a consolidation of the number of offices from 15 to 10, accompanied by an extensive rotation of comptrollers. This rotation, conceptually profound, exhibited evidence of the inconsistencies and lack of uniformity among comptroller offices. This produced discomfort and confusion at the management level with substantial readjustment to new organizational environments.

This early history, as well as the evolution of our current organization, has led us to our present position. These circumstances have resulted in constructive criticism of our operation primarily directed at our lack of consistency and methods for basic procedures, staffing, organization, and classification variances among offices.

In July 1983, Comptroller Operations underwent an extensive reorganization, merging comptroller responsibilities for agencies serviced by the Justice and Revenue Comptroller Offices and fairly and equitably integrated those responsibilities into the remaining seven comptroller offices. Included in this reorganization was the development and implementation of a standard organizational model providing economies and efficiencies of operation as well as career development and enhanced career objective by implementing areas offering tailored requirements providing enhanced professionalism.

In support of the standardized organizational structure within Comptroller Operations, a Directives Management System was developed to promulgate, disseminate and monitor policies and procedures. The Comptroller Operations Directives Management System provides a common reference for guidance as to policy, rules, procedures, etc., pertaining to the overall management and accounting and final operations under the jurisdiction of Comptroller Operations and the Office of the Budget.

Also, an Internal Operations Review function was created to provide a comprehensive review of comptroller office and bureau activities and functions. This function has become an integral part of the continuing effort by Comptroller Operations to provide high quality services in the most effective and efficient manner possible.

A third benefit derived from the reorganization is the consistency of personnel classifications. Any new classifications of personnel that may be developed have standardized qualifications and job requirements. This consistency aids in the filling of vacant positions without delay and utilizes processes that enable the selection of the best qualified candidate to fill key positions. The majority of these key positions are filled from existing Comptroller Operations personnel.

2. Long-Range Planning

A second major benefit was the development and implementation of a Comprehensive Long-Range Plan. The plan provides a general planning guide and is followed when developing individual and organizational goals and objectives, requesting organization revisions, personnel reclassifications and training. The plan is also used as a basis for future reorganization considerations. This conceptual plan represents Comptroller Operations best effort at identifying known issues and the ways and means of meeting

the Accounting, Auditing, Systems, Organization and Administrative challenge facing Comptroller Operations in the future.

Through the use of this long-range planning, Comptroller Operations realized more efficient operations and was able to maximize the utilization of its resources to accomplish the goals and objectives of the organization.

3. Conversion to GAAP in Accounting and Financial Reporting

A third major benefit derived by Comptroller Operations and the Commonwealth in general relates to the conversion to accounting and financial reporting in conformity with generally accepted accounting principles (GAAP). The benefits of GAAP financial reporting exemplify the accomplishments and benefits that can be realized by an organization that is structured with a chief financial officer to lead the organization. Some of the benefits follow:

a. The Commonwealth realized the first bond rate increase in 15 years, from A+ to AA-. This resulted in an estimated savings of $5 to $10 million interest payments over the life of the bond issues.

b. The Commonwealth received much recognition from the financial community.

c. The users of the financial statements benefited from more accurate and complete financial information and the Commonwealth improved and demonstrated better accountability.

d. Comptroller Operations personnel have become more knowledgeable concerning GAAP accounting and financial reporting since the majority of the conversion was completed "In-House."

e. The Commonwealth has improved the Integrated Central System (ICS), the centralized accounting system, including the establishment of a Fixed Asset Accounting System (FAAS).

f. Comptroller Operations improved and established good working relationships with agency personnel and independent agencies.

g. The Commonwealth has received national recognition as one of the leaders in financial management. It received the coveted Certificate of Achievement for Excellence in Financial Reporting awarded by

the Government Finance Officers Association (GFOA) for the CAFR prepared for the fiscal year ended June 30, 1986. Pennsylvania became the seventh state to receive this award, and the first state to receive it on the first submission.

We are in full support of the concept of a Chief Financial Officer for the Federal Government. It is hoped that this letter will be helpful in convincing the legislature of the importance of a Chief Financial Officer.

If you have any questions or need further information, please contact me at (717) 787-6496.

Sincerely,

Harvey C. Eckert

COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE BUDGET
COMPTROLLER OPERATIONS

BUREAU OF FINANCIAL MANAGEMENT
P.O. BOX 1323
HARRISBURG, PA 17105
(717) 783-3679

August 7, 1987

Mr. Edward Henderson
Special Assistant to the Director of the
Accounting and Financial Management Division
441 G Street, NW
Room 6013
Washington, D.C. 20548

Dear Mr. Henderson:

In response to your telephone request, the following are the perceived major benefits realized by the Commonwealth of Pennsylvania as a result of financial reporting in conformance with generally accepted accounting principles (GAAP).

1. Increased Bond Rating

In October 1985, the Commonwealth was informed by Standards & Poor's (S&P), that they increased our bond rating from A+ to AA-. S&P indicated that our GAAP financial statements was one of the factors that influenced their increase in the Commonwealth's bond rating. The Commonwealth also received an increase in the rate for Tax Anticipation Notes (from Mig 2 to Mig 1) at approximately the same time.

It is estimated the Commonwealth will save approximately $5 to $10 million in interest expense on General Obligation Bonds and Tax Anticipation Notes issued after the rate increases. As a result, more funds will be available for major programs that will benefit the citizens of the Commonwealth since less money will be needed for debt service payments.

2. More Accurate and Complete Financial Statements

Financial reporting in conformity with GAAP has also provided the Legislative Branch of Government, the financial community, the citizens of Pennsylvania and the program managers of the Commonwealth with more accurate and complete financial statements.

For the fiscal year ended June 30, 1986, the Commonwealth prepared its first Comprehensive Annual Financial Report (CAFR) which included, for the first time, the General Purpose Financial Statements (GPFS) and Continuing and Individual Funds Statements for all the Commonwealth funds and independent agencies (component unit). The CAFR, prepared in accordance with GAAP, provided more accurate financial information since the revenue and expenditure accruals and interfund operating transfers are required for GAAP reporting. The Commonwealth's Budgetary Financial Statements are prepared on a cash basis, rather than the accrual or modified accrual basis required by GAAP reporting.

3. Audit Assurance

The June 30, 1986 CAFR includes an unqualified auditors' opinion rendered by the joint GAAP auditors, the independent auditing firm of Ernst & Whinney and the independently elected Auditor General of the Commonwealth. This unqualified auditors' opinion represents an assurance to Commonwealth management and the users of the financial statements that they have been prepared and audited in accordance with GAAP and GAAS and they present fairly the financial position of the Commonwealth of Pennsylvania. Although this assurance may not relate to monetary savings to the Commonwealth, it will relate to an improvement in the Commonwealth's financial reporting.

There are other benefits of GAAP reporting such as improved technical knowledge of accounting staff, the establishment of a Fixed Asset Accounting System (for GAAP reporting only), and improved accountability to the users, that may or may not represent monetary savings to the Commonwealth. However, the Commonwealth of Pennsylvania is proud of its efforts in converting to financial reporting in conformity with GAAP, and the efforts were rewarded by becoming the seventh state to receive GFOA's Certificate of Achievement for Excellence in Financial Reporting for its June 30, 1986 CAFR.

As you requested, a copy of Ernst & Whinney's paper on GAAP reporting in the Commonwealth of Pennsylvania is attached.

We appreciate the opportunity to respond to your request, and if you have any questions or need additional information, please contact William Higgins, Assistant Director for Accounting at (717) 787-6682.

Sincerely,

Donald E. Edmiston
Director

Attachment

ENCLOSURE VI TEXAS ENCLOSURE VI

Bob Bullock
Comptroller of Public Accounts
Austin, Texas 78774

512-463-4000

LBJ
State Office
Building

August 14, 1987

Mr. Frederick D. Wolf
Director
U.S. General Accounting Office
Accounting and Financial Management Division
441 G. Street, N.W. Room 6001
Washington, D.C., 20548

Dear Mr. Wolf:

Thank you for your letter and the information you enclosed regarding the General Accounting Office's efforts to improve the financial management practices of the federal government. It should prove very useful to the ongoing efforts of my fiscal management staff.

As the elected official charged with primary responsibility for keeping the books for the state of Texas, as well as administering the majority of our state taxes, I know how critical an accurate accounting statement is to the development of sound fiscal policies. Without the first, the second, at best, becomes an exercise in educated guesswork.

The absence of a truly uniform method of accounting among state agencies in Texas has long been a source of confusion to legislative leaders and the financial community alike. Our "cash basis" method of accounting has enabled us to balance the books and little else. The financial difficulties recently confronting the state have, however, focused new attention on this problem, and as a result, we have begun the process of a top-to-bottom modernization of our state accounting system.

During the last legislative session, two important legislative acts were passed which will bring Texas into the mainstream of modern financial accounting and reporting practices. Senate Bill 85 makes my office responsible for preparing an annual financial report which conforms to generally accepted accounting principles. It also gives my office the authority to prescribe uniform accounting procedures for all state agencies as well as the authority to prescribe form and content of their annual reports.

On a broader scope, House Bill 1785 mandates my office to develop a comprehensive plan for the design and implementation of a statewide uniform accounting system to be used by all state agencies. This plan will be presented to the next Legislature for approval.

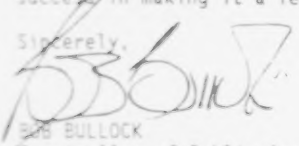
The State Auditor's Office also is very much involved in the process to insure that our financial resources are managed efficiently and effectively. In the future, his office will be conducting more performance and operations audits at the state agency level and will rely on the statewide financial report prepared by my office for his audit of the state's financial activities. This is a significant departure from the past practice of performing financial audits of all state agencies.

You can clearly see how the federal initiative closely parallels our own. Moreover, since all our state agencies, including institutions of higher education, must now comply with the requirements of the Single Audit Act of 1984, they will be reporting all federal assistance to this office through their annual reports.

We will then summarize that information at the state level, the information will then be audited and reported to the appropriate federal agencies by the State Auditor. I feel this will be a direct contribution to the Comptroller General's financial management efforts.

As public servants, we owe a duty to all taxpayers to do all we can to ensure that they get maximum return for their tax dollars. I support the Comptroller General's financial management improvement proposal and wish him success in making it a legislative mandate.

Sincerely,



BOB BULLOCK
Comptroller of Public Accounts

BB/ddc

OFFICE OF
THE STATE AUDITOR

JOHN H. REAGAN STATE OFFICE BUILDING
P.O. BOX 12067
AUSTIN, TEXAS 78711-2067
512/463-5791

LAWRENCE F. ALWIN, CPA
AUDITOR

SHARON N. GILLETT, CPA
FIRST ASSISTANT

August 11, 1987

Mr. Frederick D. Wolf, Director
Accounting and Financial Management Division
United States General Accounting Office
Washington, D.C. 20548

Fred

Dear Mr. Wolf:

I read with interest your letter of August 3, 1987 concerning initiatives being taken by the Comptroller General to improve federal financial management.

During the recent legislative session, the State of Texas addressed somewhat similar issues. The requirement has now been established that statewide financial information must now be prepared annually and is subject to audit by the State Auditor's Office. Additionally, a task force is established to address the development of a uniform statewide accounting system for all agencies of state government including institutions of higher education.

I am supportive of the approach outlined in your memorandum. Optimal accountability at any level of government, in my opinion, can only take place when such government chooses to implement disciplined financial management systems that required periodic reporting on a consistent basis. If I can assist your office in any way on this initiative please do not hesitate to call.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

ENCLOSURE VII

State of Utah
Department of Administrative Services
Division of Finance

ENCLOSURE VII

Norman H. Bangerter, Governor
Gordon L. Crabtree, C.P.A.

August 11, 1987

Ms. Helena Sims
NASACT
444 North Capitol Street, N.W.
Suite 323
Washington, D.C. 20001

RE: Advantages of GAAP Accounting

Dear Ms. Sims:

It is the State of Utah's experience that conforming to generally accepted accounting principles (GAAP) has been beneficial. Because the State operates with public funds, we feel that the financial statements must be credible and comparable and to be such, must be reported on a GAAP basis.

For the statements to be credible, the accounting transactions must be based on the required accounting standards. This means they are immune from political needs. If the numbers are based on set standards, the public is assured that the proper amounts are shown in the right year and that they are all present. Because of accounting standards, the financial statements disclose all liabilities. This is important for the public and management to be aware of, so that future spending does not exceed the liabilities.

As a result of the financial statements' credibility, the statements can be audited. The audit is an important process as the audit opinion informs the reader whether the statements are reported in conformity with GAAP (followed the standards).

The other advantage to GAAP reporting is that it provides comparability. The reader is assured that the way the statements were prepared is consistent from year to year. Also, the statements can be compared to other states or similar entities (i.e. State college to a private college). The reader knows that there is a consistency in the way the numbers are presented. Following GAAP also provides a measuring stick for continuity in the event of staff turnover.

A second advantage to GAAP reporting is that we can obtain periodic reports during the year to measure where the State is at. This is necessary to monitor the spending compared to the revenue.

Partners in Service
2110 State Office Building
Salt Lake City, Utah 84114
(801) 533-4000

To give our State credibility and comparability, we have made a commitment to several areas. The first area is in developing the systems to handle and give out the information we need on a timely basis. Utah operates on a central accounting system. This was not always the case as individual departments wanted to run their own systems. To solve this, our accounting systems are broad enough to cover differing situations and yet can be individualized enough to answer the departments' special needs.

The centralized system reduces the costs of running duplicate systems. It also allows preparation of interim reports without a massive data gathering exercise. Our systems development is an ongoing effort.

We have also made a commitment to establishing and documenting accounting procedures. This enables us to treat transactions in a consistent manner. Along these same lines, we have enhanced the internal controls over the accounting transactions to ensure their timely and correct recording. The controls prohibit manipulation by departments or politicians.

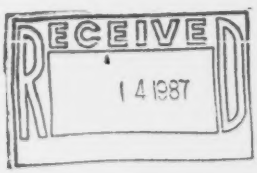
The third area of commitment is in hiring and maintaining competent staff. Systems and procedures with all the "bells and whistles" do not work without good people behind them. Our State has used outside consultants only when necessary. Following GAAP reporting has allowed us to upgrade the educational requirements of the State accountants so we have staff capable of understanding GAAP.

In summary, the State of Utah has, by implementing generally accepted accounting principles, produced financial statements that are credible and comparable for the benefit of the public and the decision makers.

Sincerely,

Gordon L. Crabtree

Gordon L. Crabtree, CPA
Director of Finance



EXCERPTS

DUTIES OF THE STATE COMPTROLLER IN VIRGINIA

A PRESENTATION TO THE STATE CONTROLLER STUDY COMMISSION OF THE NORTH CAROLINA GENERAL ASSEMBLY

BY EDWARD J. MAZUR, COMPTROLLER
COMMONWEALTH OF VIRGINIA

FEBRUARY 27, 1986

Illustrations of Impact of State Comptroller's Policies on Commonwealth's Revenues, Expenditures and Operations

Revenues:

1. Improved collections of receivables;
2. Improved collections of student fees and tuition;
3. Increase recovery of statewide indirect costs;
4. Recovered long-term working capital loans to enterprise and internal service funds;
5. Increased interest income on invested available funds in excess of $1 million per year;
6. Recovered $10.0 million in overpaid social security contributions, $3.2 for General Fund (sick pay recovery);
7. Excluded $1.0 million from social security payments (sick pay exclusion).

Expenditures:

1. Lowered systems development and systems maintenance costs through reduced duplication of systems;
2. Reduced resources required to accumulate earned leave;
3. Avoided duplicate purchases of equipment;
4. Reduced check costs by $150,000 per year through MICR encoding;
5. Ensures expenditures do not exceed appropriations.

Illustrations of Impact of State Comptroller's Policies on Commonwealth's Revenues, Expenditures and Operations (Continued)

Operations:

1. Increased percentage of vendor payments made on time;
2. Reduced employee lost productivity through direct deposit of payroll;
3. Increased independence and effectiveness of State Auditor through preparation of agency financial statements;
4. Increased level of financial analysis and reporting on results of operations to agency management;
5. Reduced resources necessary for fringe benefits administration;
6. Reduced resources necessary to distribute fringe benefits;
7. Improved reliability in preparations of payrolls;
8. Completed catastrophe computer operations plan;
9. Approved physical control over fixed assets;
10. Increased public confidence through reductions in major accounting and compliance deficiencies;
11. Strengthen the AAA bond rating;
12. Improved national reputation for fiscal accountability.

EXCERPTS

REPORT TO THE COMPTROLLER OF THE COMMONWEALTH OF VIRGINIA ON ADOPTING AND IMPLEMENTING GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Coopers
&Lybrand

Coopers
&Lybrand

certified public accountants

Suite 1000
Seventh and Franklin Building
Richmond, Virginia 23219

telephone (804) 643-0234
twx 710-956-0212
cables Colybrand

in principal areas of the world

December 1, 1981

Mr. Edward R. Mazur, CPA
Comptroller
Commonwealth of Virginia
Richmond, Virginia 23215

Dear Mr. Mazur:

On several occasions during the past eighteen months, we have met with you and members of your staff to discuss matters related to financial reporting in accordance with generally accepted accounting principles (GAAP). You selected Coopers & Lybrand to assist you because of our extensive experience in this area, which is summarized in Appendix E.

At your request, we have developed this formal report to document our understandings of the status of your efforts to implement GAAP, our recommendations, and the initial decisions you have reached during these sessions.

As highlighted in the Executive Summary of this report, we endorse your conclusions that GAAP financial statements would provide the Commonwealth of Virginia and its citizens with very substantial and real benefits. In addition, we concur with your decision to eventually have the Commonwealth participate in the Certificate of Conformance Program sponsored by the Municipal Finance Officers Association.

We commend you and your colleagues for your foresight and initiative in investigating the benefits of adopting GAAP and ways of implementing GAAP in Virginia's Annual Report of the Comptroller. As you know, we have previously commented favorably on the direction your Office took in preparing the 1980 Annual Report.

Our most recent technical discussions occurred in the early summer, when the general form and content of the 1981 Annual Report was also being considered. At the time, a decision was made to incorporate as many additional GAAP concepts as practicable in this year's Annual Report. The GAAP concepts that were incorporated for the first time in the 1981 Annual Report are highlighted herein. Using the 1981 Annual Report as a "point of reference," an up-to-date work plan that lists additional steps to be taken to fully implement GAAP has been developed and is included in this report.

Coopers
&Lybrand

December 1, 1981

The GAAP conversion "work plan" included in this report can be effectively carried out by your highly qualified staff and agency personnel within a reasonable time period. While we realize that implementing GAAP cannot be accomplished quickly and will require financial resources, we are confident that through your continued initiative--together with appropriate technical consultation--you will ultimately achieve financial reporting which is in conformity with GAAP, together with the related benefits discussed in this report.

We appreciate the opportunity to work with you and your staff on this important undertaking and stand ready to further assist you in any way we can.

Very truly yours,

Coopers & Lybrand

EXECUTIVE SUMMARY

Financial reporting standards and practices of state and local governmental units have evolved rapidly in recent years. In part, these improvements were necessitated by the governmental financial crises that covered newspaper headlines during the mid-1970's. In response to this need, professional organizations and accounting firms--including Coopers & Lybrand--have been working very hard to develop and refine generally accepted accounting principles (GAAP) for governmental units.

Virginia is, of course, in sound economic condition, and it is unlikely that the Commonwealth will have to face the same type of financial crisis that many governments faced several years ago. However, if Virginia is to retain its sound economic condition, it will have to employ all of its fiscal talents to contend with the myriad of problems facing states today, such as:

- The impact of inflation on expenditures and revenues of the Commonwealth.

- Fewer federal funds for state projects.

- Reduction in public grants and endowments from the private sector.

While the Commonwealth obviously does not have to adopt GAAP to resolve any "fiscal crisis," it should consider GAAP as an additional tool to help the Commonwealth:

- Manage its fiscal affairs more effectively.

- Demonstrate to the business community that Virginia's officials administer the Commonwealth utilizing the same financial standards used by business.

BENEFITS

Deciding to adopt GAAP for financial reporting purposes is a major and important decision. Implementing GAAP is a significant undertaking that cannot be done overnight. However, states that do present their financial statements in accordance with GAAP reap many benefits. We have read Virginia's Annual Report of the Comptroller and held several discussions with you and your staff. Based on this work and our experience in the governmental area, we believe that GAAP would help the Commonwealth to realize the following ten benefits:

1. Be able to issue bonds at the best possible interest rates.

2. Identify and disclose significant assets and liabilities that otherwise may not be reported.

3. Help bring trade into Virginia by demonstrating fiscal accountability and responsibility.

4. Inform the public about the State's financial position and operations on a basis that is professionally recognized and consistently applied.

5. Measure and manage financial operations and resources more effectively.

6. Maintain a leadership role among other states in financial reporting.

7. Faciliate a more uniform approach in developing any necessary modifications to the Commonwealth's accounting systems.

8. Provide a more effective and efficient approach for State auditors to set the scope of audits and perform audit procedures.

9. Add additional support to lower municipalities' bond interest rates.

10. Enhance the Commonwealth's gifts and grants programs supported by the private sector.

Appendix A contains, in detail, explanations of the above and other benefits of GAAP to the Commonwealth and its citizens.

CERTIFICATE OF CONFORMANCE

To promote the highest standards of financial reporting and to reward governmental units that achieve them, the Municipal Finance Officers' Association (MFOA) supports a special Certificate of Conformance Program (the "Certificate"). Obtaining the Certificate of Conformance would be a significant and recognized achievement for the Commonwealth and would enhance the State's progressive image. Appendix B contains more information about the requirements and benefits of the MFOA's Certificate of Conformance.

IMPLEMENTING GAAP

Significant initial steps toward GAAP reporting were taken in preparing the 1979 and 1980 Annual Reports. Since 1980, representatives of Coopers & Lybrand, you and members of your office have worked together to identify additional, specific steps to be taken to prepare Virginia's financial statements more fully in accordance with GAAP. Virginia's 1981 Annual Report of the Comptroller clearly shows that much work has already been done by you and your staff and much remains to be done.

Appendix C highlights the GAAP concepts that were adopted this year and reflected in the 1981 Annual Report.

As a result of our joint technical discussions to determine just how much additional work was needed to fully implement GAAP and when it could be completed, a detailed work plan was prepared (see Appendix D).

As noted above and reflected in the work plan, adopting GAAP and preparing the State's financial statements in accordance with GAAP requires much time, effort and executive support, especially in the beginning. Fortunately, Virginia has already developed the "Commonwealth Accounting and Reporting System (CARS)" that will accommodate most of the general ledger requirements associated with GAAP accounting and financial reporting. However, additional systems development effort is necessary to fully implement GAAP. This effort relates to the following three subsidiary systems that should be implemented statewide:

EXECUTIVE SUMMARY, Continued

- Accounts receivable system - so that the State's assets may be clearly identified and converted to cash available to fund public services.

- Accounts payable system - to identify debts of the State and to control payments and maximize cash management in Virginia.

- Fixed asset accounting system - to provide accountability and control of physical plant and contents and to provide records of existing assets which could be reviewed (called screening) prior to the purchase of additional assets to avoid duplicate purchases.

Additional future costs related to implementing GAAP, most of which would probably be in the form of personnel costs, should be considered, including:

- Any additional technical research required to define the generally accepted accounting principles applicable to Virginia's activities.

- Other systems modifications necessary to accommodate changes in accounting policies.

- Revisions to accounting manuals to reflect procedural changes.

- Training agency personnel to ensure understanding and accurate implementation of procedural changes.

In summary, the "costs" involved in implementing GAAP must be carefully considered. However, the consequences of not implementing GAAP could--in the long run--prove to be far more costly than the items listed above.

ENCLOSURE IX

WISCONSIN

ENCLOSURE IX

Tommy G. Thompson
Governor
James R. Klauser
Secretary

Mailing Address:
Post Office Box 7864
Madison, WI 53707-7864

State of Wisconsin
Department of Administration

101 South Webster Street • Madison, Wisconsin

August 25, 1987

Mr. Frederick D. Wolf, Director
Accounting and Financial Management Division
United States General Accounting Office
Washington, D.C. 20548

Re: Legislation to Improve Federal Financial Management

Dear Mr. Wolf:

I have received your letter, dated August 3, 1987 and appreciate having the opportunity to respond to such an important piece of federal legislation. I believe that the legislation is well designed, long overdue, and will substantially improve the management and control of the nation's financial resources.

My first reaction to the model legislation, however, was not positive. It was only after I studied it further, and made a comparison of the legislation's proposed management structure with the existing financial management structure in Wisconsin, that I concluded it reflected needed changes which in many ways parallel the present structure in our state. My earlier reaction is based on a belief that to a large degree there are already "too many cooks in the kitchen" resulting in a weakening, not a strengthening, of financial management and control. Therefore, it is only with extreme caution that I give support to any proposal which increases the federal bureaucracy.

Ideally, the functions enumerated in the model legislation should be the responsiblity of OMB. Pragmatically, however, it is difficult for budget development to be organizationally together with financial management. Budget development in a political setting, when organized together with financial management, will always assume the higher priority and undivided attention of management, leaving a huge void in the financial management function. This is why in Wisconsin, my office was

organizationally separated from the executive budget office in 1978.

In Wisconsin, the State Bureau of Financial Operations, which I head, performs most of the duties the federal model legislation would place under the new Under Secretary for Federal Financial Management. These duties include:

- Accounting policy development and execution
- Execution of budget control
- Central accounting, appropriations and fund management
- Annual financial reporting
- Audit of agency financial controls and agency financial reports
- Cash management coordination and administration
- Central payroll

Within the framework we must work closely with other authorities who also have a role in the overall financial management of the state, such as:

- Division of Budget and Planning (executive budget office)
- State Auditor (legislative auditor)
- State Treasury (revenue collection and cash disbursements
- Legislative Fiscal Bureau (legislative budget office)
- Department of Revenue (tax policy and administration)
- Agency controllers
- Agency internal auditors

I believe the creation of the Under Secretary for Federal Financial Management will provide the federal government the ability to instill a long-term focus on its management of financial resources. It will eliminate the instability of an "on-again/off-again" approach to this function and instead will provide it the high level exposure and planning which is so desparately needed.

I sincerely appreciate the opportunity to comment on this topic and would be happy to provide additional information if needed.

Sincerely,

George R. Natzke
State Finance Director

GRN:ngs

cc: Helina Sims, National Association of State Auditors, Comptrollers and Treasurers

The Honorable Roland W. Burris, Comptroller
201 State House
Springfield IL 62706

JUL 23 1987

FINANCIAL MANAGEMENT

IMPLEMENTATION SCHEDULE

- Agency Systems Upgrade
- Standard Systems
- Cross Servicing
- Financial Managers Council (schedule in process)
- Departmental Controller Function (schedule in process)
- Internal Controls

FINANCIAL MANAGEMENT GOALS

- IMPLEMENT NEW IMPROVED BUDGET SYSTEM
- IMPROVE QUALITY/UTILITY OF FINANCIAL DATA
- UPGRADE/CONSOLIDATE AGENCY FINANCIAL SYSTEMS
- IMPLEMENT STANDARD GENERAL LEDGER
- GAIN COMPLIANCE WITH GAO STANDARDS/FEDERAL MANAGEMENT FINANCIAL INTEGRITY ACT
- IDENTIFY/CORRECT AGENCY MANAGEMENT CONTROL DEFICIENCIES

IMPLEMENTATION PERFORMANCE MEASURES

FINANCIAL MANAGEMENT SYSTEMS

- Progress made in implementing standard general ledger and improving quality and usefulness of data generated by financial systems.
- Systems modernization by integrated in-house systems, off-the-shelf commercial systems or cross-servicing by other agencies with capable systems.
- Compliance with GAO standards as implemented through OMB Circular A-127 "Financial Management Systems."
- Progress is greater than mark discloses, due to existence of above average plan.

INTERNAL CONTROLS

- Material weaknesses in management controls that warrant reporting to the President and Congress.
- Action is completed when the material weakness is corrected.
- In addition to identifying and correcting material weaknesses this indicator includes a judgment on the agency's over all efforts in providing guidance, training, tracking and validating corrective actions and general oversight of the program.

FINANCIAL MANAGEMENT

ACTIVITY	IMPLEMENTATION STEPS	SCHEDULE START	SCHEDULE COMPLETE	RESPONSIBILITY
Agency Systems Upgrade	OBJECTIVE: Implementation in each agency of a primary accounting system component through the use of off-the-shelf software or cross-servicing arrangements. 1987-1988 INITIATIVES			
	1. Complete detailed review of agency plans submitted in February.	Completed	Completed	OMB/Treasury
	2. Brief agencies during week of June 15 on Management Report goals, overview of agenciews plans, and OMB/FMS roles.	6/87	6/87	OMB/FMS
	3. Issue letters to agencies calling for plan revisions	7/87	7/87	OMB
	4. Agencies submit/OMB accept revised plans.	9/87	9/87	OMB/Treasury
	5. Monitor agency progress to assure milestones are met.	9/87	12/88	OMB/Treasury
	6. Implement 1/ agency primary accounting system.	9/87	12/88	OMB/Treasury
	1/ Meet milestones such as agencywide coding and accounting standards.			

ACTIVITY	IMPLEMENTATION STEPS	SCHEDULE START	SCHEDULE COMPLETE	RESPONSIBILITY
Standard Systems	OBJECTIVE:			
	Implementation of a consolidated Governmentwide financial management information system operating in all major agencies.			
	1987-1988 INITIATIVES:			
	A. JFMIP			
	1. Appoint project leader	Completed	Completed	OMB/JFMIP
	2. Develop/approve project plan	5/87	6/87	OMB/JFMIP
	3. Review existing agency requests for proposal. (RFP's)	4/87	6/87	OMB/JFMIP
	4. Review existing coding and classification structures.	6/87	6/87	OMB/JFMIP
	5. Develop draft requirements/RFP	6/87	7/87	OMB/JFMIP
	6. Develop/issue final requirements	7/87	8/87	OMB/JFMIP

ACTIVITY	IMPLEMENTATION STEPS	SCHEDULE START	SCHEDULE COMPLETE	RESPONSIBILITY
	B. GSA			
	1. Modify/issue final RFP	8/87	9/87	OIRA/GSA
	2. Review vendor proposals	10/87	12/87	OIRA/GSA
	3. Issue Basic Ordering agreement (BOA)	1/88	2/88	OIRA/GSA
	C. Agencies			
	1. Award contract from BOA or identify modifications to current system.	2/88	4/88	OMB/FMS
	2. Pilot test revised system.	5/88	8/88	OMB/FMS
	3. Implement revised system	8/88	12/88	OMB/FMS

FINANCIAL MANAGEMENT

ACTIVITY	IMPLEMENTATION STEPS	SCHEDULE START	SCHEDULE COMPLETE	RESPONSIBILITY
Cross-Servicing	OBJECTIVE: Continued reduction in the number of personnel/payroll and other subsidiary financial systems. 1987-1988 INITIATIVES			
	1. Develop capability in Treasury's FMS to provide complete accounting services to small agencies.	3/87	12/88	OMB/FMS
	2. Transfer personnel/payroll capability from National Finance Center to Interior	3/87	6/88	OMB/NFC/DOI
	3. Transfer similar capability to Veterans Administration	12/87	12/88	OMB/NFC/VA
	4. FMS cross-servicing (16 small agencies 1/)	1/88	12/88	OMB/FMS
	1/ Target dates and identifying of individual are being worked out with FMS.			

FINANCIAL MANAGEMENT

ACTIVITY	IMPLEMENTATION STEPS	SCHEDULE START	SCHEDULE COMPLETE	RESPONSIBILITY
Internal Controls	OBJECTIVE: To prevent fraud, theft and misuse of Government property and ensure all internal control weaknesses are identified and that the over 400 existing weaknesses are corrected by the end of 1988			
	1987-1988 INITIATIVES			
	1. Review and discuss 1986 FMFIA reports with each of the 23 major agencies. (Agency profiles on first 12 agencies being prepared).	5/1/87	7/15/87	OMB/Agencies
	2. Check status of preparation of 5-year Management Control Plan.	5/15/87	7/15/87	
	3. Prepare and issue 1987 report instruction with emphasis on special areas of concern. (Draft has been prepared.)	6/1/87	7/31/87	
	4. Monitor agencies' corrective actions on material weaknesses and prepare quarterly progress reports.	7/1/87	7/31/87	
	5. Review draft of major agencies 5-Year Management Control	8/1/87	11/30/87	
	6. Review agencies 1987 FMFIA reports.	1/1/88	2/28/88	

FINANCIAL MANAGEMENT

ACTIVITY	IMPLEMENTATION STEPS	SCHEDULE START	SCHEDULE COMPLETE	RESPONSIBILITY
Financial Mgmt.				
General Ledger:	OBJECTIVE: To implement the Standard General Ledger by 1988, in support of all routine budget and financial reports.			
	1987-1988 INITIATIVES			
	1. Crosswalk existing general ledgers and Standard General Ledger	Completed		OMB/FMS
	2. Pilot test Agency-specific entries and accounts.	Completed		OMB/FMS
	3. Issue agency-wide instructions and procedures	6/87	7/87	OMB/FMS
	4. Install general ledger in selected agencies and prepare annual reports	9/87	10/87	OMB/FMS
	5. Install general ledger in all agencies and prepare quarterly and annual reports	10/87	10/88	OMB/FMS

How Do Private Firms Fare Under Federal Government Accounting Procedures?

Examples* of Generally Unacceptable Federal Government Accounting Procedures (GUFGAP)

by

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* These examples are meant to highlight various accounting and conceptual issues in the federal budget and related documents. They are drawn from material in my forthcoming book, The Real Federal Budget, Harvard University Press. I am deeply indebted to Brad Barham and Matt Cameron for assistance in preparing these examples. Nothing contained herein is meant to convey any information or judgement concerning the activities or accounting procedures of the firms used as examples.

1. Introduction

The federal government's accounting procedures differ greatly from generally accepted accounting principles (GAAP). There are undoubtedly a variety of reasons for this, including important differences between government and private activity, historical accident, political decisions, etc. Among the many unusual features of federal government accounting procedures are the failure to separate capital and current accounts, the lack of provision for expected future losses in many loan and loan guarantee programs, the exclusion of a variety of items, etc.

Such accounting procedures may lead to inefficient government decisions at the agency level, e.g., in the decision to rent versus purchase equipment, the terms of loans or guarantees, and the sale of government assets. Thus, future costs or cost savings may be given systematically insufficient weight in budgetary decisions. The additional information conveyed by more complete and accurate financial reporting for the federal government, while potentially a valuable input into better government budgeting, can also be abused or misused. Uneconomic public investment could be justified as not adding to current operating expenditures or the deficit, for example.

In order to highlight the implications of some of these unusual features of federal government accounting procedures, we present below some examples of the financial reporting of some of the most prominent corporations in the United States, using various features of federal government accounting procedures. We have not attempted to adjust each and every item to make it consistent with all features of the federal government's accounting procedures. Rather, we have taken specific examples of federal budget accounting anomalies and applied them selectively to the financial reporting of corporations to highlight the

potential problems.

The results are striking. For example, General Motors had one of the most profitable years in the history of the automobile industry in 1984. However, if General Motors did not have a separate capital account and treated its huge investment expenditures as current expenses, as is done in the federal budget, it would have reported a large net loss. This would have had the by-product of transforming $417 million in taxes due into a large net operating loss carry-forward, reducing future tax liabilities.

SeaFirst Bank, whose difficulties stem heavily from the Penn Square fiasco, reported a $180 million loss before taxes, and a $91 million loss after taxes, in 1982 (implying approximately a $90 million tax refund). SeaFirst reported a $288 million loan loss provision that year. Of this amount, only $186 million were on bad loans realized in 1982, the balance being provisions for expected future loan losses. Following current federal government accounting procedures and thereby recording only the net loan losses actually incurred in 1982, SeaFirst becomes slightly profitable and its huge tax refund becomes a small tax liability.

IBM had a net income of $11.6 billion in 1984, and an after-tax net income of $6.6 billion. Following federal government accounting procedures, if IBM had recorded all of its 1984 investment expenditures as a current expense, it would have reduced its reported net income to $3.6 billion, and its after-tax income to approximately $2.0 billion. Thus, IBM would have reduced its federal tax liability by approximately $3.5 billion.

Among major corporations, IBM is a rarity as it is a large net

creditor. Were IBM to record only one-half of its receipts as interest income as if one-half of its loans were recorded off-budget, as is done by the federal government, its net income would be reduced still further to $3.2 billion, and its after-tax income to $1.8 billion. The earnings per share and the return on stockholders equity would likewise have plummetted with these "adjustments".

Finally, General Electric Corporation reported in 1984 an operating income of $2.8 billion and an after-tax net income of $2.3 billion. The return on total capital and stockholders equity were about 18% and 19%, respectively, and earnings per share were over $5. If GE had recorded all of its investment expenditures as a current expense, it would have reduced its operating income to $357 million, slightly over 10% of reported operating income. On the other hand, if General Electric had reported the revenue from capital asset sales as current revenues, as is often done in the federal budget and as President Reagan proposes in the fiscal year 1987 budget plan for reducing the federal deficit, GE's operating income would have risen to $4.2 billion and its after-tax net income to $2.8 billion. Its return on total capital and return on stockholders equity would have soared, as would its earnings per share and tax liability.

There are numerous problems with private accounting procedures and many conceptual difficulties in setting up an appropriate accounting system for private firms. Many of these are compounded when we examine the activities of the federal government.

These examples, however, clearly illustrate how arbitrary, and in some cases, quite misleading, the use of current federal government accounting procedures can be in presenting either an accurate record of federal government transactions or an accurate guide to budgetary choices in the future. Rather than using generally accepted accounting principles (GAAP), the federal government's accounting procedures might best be labeled as "generally unacceptable federal government accounting procedures" (GUFGAP).

General Motors - 1984

	Operating Income[1] $millions (After Taxes)	Return on Shareholders' Equity	Earnings per Share $	Taxes Due ($ million)
GAAP	4,516.5 (2,710.9)	18.7%	14.22	1,805.1
GUFGAPI	-1,530.7	-6.3%	-4.82	Negative Present Value[2]

Source: General Motor's Annual Report for 1984.

GUFGAPI: We include current investment expenditures as a current expense.

Note: 1. Operating income figures are net income prior to extraordinary items, such as asset sales, where relevant.

2. Net operating losses to be carried forward which will reduce future tax liabilities.

SeaFirst - 1982

	Operating Income $million (After Taxes)	Return on Shareholders' Equity	Earnings per Share ($)	Return on Assets	Taxes Due[1] ($ million)
GAAP	-180.5 (-91.3)	-16.3%	-5.59	-0.8%	-90.2
GUFGAP	12.0 (7.0)	1.2%	0.44	0.07%	5.0

Source: SeaFirst Annual Report for 1982.

GUFGAP allows SeaFirst to avoid making provisions for expected future loan losses. Therefore, they only have to record the net loan losses actually incurred in 1982. Loans expected to default in the future do not have to be provided for, which means that SeaFirst only had to report $186.2 million in net loan losses rather than $288.3 million reported under GAAP.

Note: 1. Taxes due under GUFGAP approximated using the 1981 effective tax rate of 42% rather than the statutory rate of 46%.

International Business Machines Corporation
1984

	Operating Income $millions (After Taxes)	Return on Average Stockholders' Equity	Earnings per Share $	Taxes Due[1] ($ million)
GAAP	11,623 (6,582)	26.5%	10.77	5,041
GUFGAPI	3,583 (2,028)	8.2%	3.32	1,555
GUFGAP2	3,183 (1,805)	7.3%	2.95	1,378

Source: IBM's Annual Report for 1984.

GUFGAPI: Includes current investment expenditures as a current expense.
GUFGAP2: Records only 1/2 of interest income as if one half of IBM's loan assets are recorded off-budget through the equivalent of the Federal Financing Bank.

Note: 1. Taxes due approximated using the effective tax rate of 43.4% reported in 1984 rather than the statutory rate of 46%.

General Electric - 1984

	Operating Income $million (After Taxes)	Return on Total Capital	Return on Average Stockholder's Equity	Earnings per Share $	Taxes Due[1] ($ million)
GAAP	2,845 (2,280)	17.9%	19.1%	5.03	1,065
GUFGAP1	357 (593)	4.7%	5.0%	1.31	275
GUFGAP2	4,191 (2,790)	20.0%	23.4%	6.15	1,295

Source: General Electric Annual Report for 1984.

GUFGAP1: Includes current investment expenditures as a current expense.
GUFGAP2: Includes revenue from capital asset sales as current revenues like President Reagan's plan for asset sales as deficit reduction measures. Under GAAP, generally accepted accounting principles, capital gains or losses from asset sales, not total sale revenues, are reported as extroadinary gains or losses, separate from net income from normal operations.

Note: 1. Taxes due approximated using the effective tax rate of 31.7% reported in 1984 rather than the statutory rate of 46%.

2 The operating income figure of $357 million before taxes and $593 million after taxes is due to the presence of extraordinary itmes not included in operating income.